

The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF



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Professional Notes.

THE Town Council of Bedford have passed a resolution congratulating Mr. Thomas Keens, F.S.A.A., upon his election to the office of President of the Society of Incorporated Accountants and Auditors, and a copy of the resolution has been transmitted to Mr. Keens by the Town Clerk. We regard this as an exceptional honour on the part of a municipal corporation to the President of a professional body.

Sir John Ferguson, the President of the Institute of Bankers, has expressed his views in regard to a suggestion that there are too many accountants

directing businesses to-day. Sir John stated that at the present time he thought that it was of the greatest assistance to the industry of the country for companies to rely upon the high degree of efficiency which accountants undoubtedly possess, and which was brought prominently before the public through the many services they rendered during the war.

Sir James Martin, F.S.A.A., recently addressed the Southampton Chamber of Commerce at their monthly luncheon meeting on the subject of "Legislation as affecting Commerce." He was accompanied by Lady Martin, and there was an important gathering to meet him which included the Mayor and Mayoress of Southampton. A pleasing feature of the proceedings was a vote of thanks moved to him by Mr. F. Woolley, F.S.A.A., who stated that he first made the acquaintance of Sir James 30 years ago when seeking the professional qualification which he now possessed. In the course of his response, Sir James Martin said that he greatly appreciated the reference which Mr. Woolley had made to their long friendship, and mentioned that he was introduced to Southampton 40 years ago by Mr. Edward Whittaker, F.S.A.A., who was sitting near him. He said that he had expressed a hope to the Mayoress of Southampton that when she had lived as long as he had she might be able to look back upon such valued friendships as he had been able to make during his career.

The *Times* has recently called attention to the general position of preference shareholders, whose rights have been frequently prejudiced in such a way as to detract from the confidence reposed in preference shares as sound investments. The voting power vested in ordinary and deferred shareholders is often sufficient to over-ride the position of the preference shareholders, whose rights in reconstruction are frequently omitted from the prospectus though defined in the event of a winding up. A number of cases have been brought to public notice from time to time. Objection is raised to preference shareholders being forced into the position of having to prejudice their position for the benefit of holders of more junior shares.

Mr. G. S. Pitt, in his Memorandum of Evidence to the Company Law Amendment Committee on behalf of the Council of the Society, stated that in his view the position of preference shareholders was insufficiently safeguarded, having regard to the tendency of ordinary shareholders frequently to throw part of the onus of losses upon preference

shareholders, whose privileges of participating in increased profits are small, or do not exist, and whose responsibility for losses should be correspondingly restricted.

The Company Law Amendment Committee pointed out that the modification of rights clauses in Articles of Association sometimes operated to cause hardship, particularly in circumstances such as those to which reference has been made. The Committee, however, did not think that the operation of these clauses should be restricted to any serious extent. The remedy suggested was to give power to the Court to review resolutions passed at a class meeting. This procedure the Committee believe would prevent injustice without prejudicing the beneficial operation of such clauses.

In our Legal Notes this month will be found one or two interesting cases on the subject of the exemption of charitable institutions from income tax. The main provisions relating to this matter are contained in sect. 37 of the Income Tax Act, 1918, but it should be borne in mind that these are supplemented by sect. 30 of the Finance Act, 1921, by which it will be seen that although a charitable institution carries on a trade it is not necessarily subject to tax. In such a case the liability to taxation depends upon how the profits are applied.

The report of the Chief Registrar of Friendly Societies for the year 1925, which has just been issued, shows that the total number of societies on the register at the beginning of the year was 33,368. Of these 30,567 related to England and Wales, and 2,801 to Scotland. During the year there were 608 new registrations in England and Wales, and 928 removals from the register through dissolution, amalgamation or other causes, leaving 30,247 on the register at the end of the year. In Scotland the new registrations and the removals from the register were 64 each, thus leaving the number of societies on the register at the end of the year without alteration at 2,801. The full list of societies consists mainly of the following: Friendly Societies 25,314, Industrial Societies 5,905, Building Societies 1,092, Trade Unions 579, and Loan Societies 129.

A movement, having for its object the bringing together of producers and consumers of grain and other commodities without the employment of brokers, is causing some concern on the Baltic Mercantile & Shipping Exchange, and a petition is being put forward to the directors of the Exchange

pressing for an alteration of the rules so that no merchant, importer, exporter, miller or seed crusher who is a member of the Exchange shall be allowed to deal, except through the intervention of another member, acting as a broker; and also that no broker who is a member of the Exchange shall be allowed to buy or sell either directly or indirectly for his own account. The object is to bring the practice on the Baltic into line with that of the Stock Exchange and other similar bodies.

In connection with the present industrial dispute Mr. Robert Ashworth, F.S.A.A., has put forward in the public Press a suggestion that a capital value should be placed upon labour, and in order to effect this he proposes that a national body of independent business men, composed of economists and accountants, should be formed for the purpose of putting into terms of money the capital value of each class of labour and management in each industry. It is not meant by this that the capital value of labour should become an integral part of the capital of the business, but only that it should be treated as the most equitable basis upon which to remunerate labour.

The suggestion is that the labour-capital-value should be fixed by reference to the present earning capacity of the respective classes of labour (including management). Each class would receive interest on its capital value in the form of wages, which would be a first charge on the business, and payable whether profits were earned or not, at a rate equal to that payable on the preference money-capital. The other capital would then participate with certain limits, and the balance remaining would be distributed amongst the employers, the ordinary shareholders and labour at equal rates upon their respective capitals. The idea is an ingenious one, but seems to have several weak points in its practicable application. For instance, it would hardly be equitable to take each industry as a unit because the ratio of labour-capital-value would be affected by local conditions including the natural richness of the land, either in mineral or surface productivity. This is one of the troubles that lies at the root of the present dispute in the coal industry. There is also the question of the introduction of new labour-saving machinery and the capital necessary to finance it. Is labour always to retain the same ratio of capital-value without regard to these considerations?

At the annual Provincial Meeting of the Law Society held recently a number of papers were read,

including one on "The Law and the Poor" by Mr. H. G. Barclay, in which the author pointed out that efforts are constantly being made to provide legal aid for poor persons. For this purpose the Law Society has formed a Poor Persons' Department, which has devised a scheme for assisting poor persons in co-operation with the Provincial Law Societies. Commenting on the criticism that the poor patient enjoys more advantages than the poor litigant, Mr. Barclay points out that in the legal profession certain difficulties arise by reason of the established system of exclusive jurisdiction to certain Courts and certain places, and the fact that the legal profession is divided into two branches. In the medical profession, on the other hand, the practitioner has the dual qualification of physician and surgeon, and the patient can have direct access to a specialist without any intermediary. These distinctions between the two professions may make the giving of gratuitous legal assistance a little more difficult in some cases, but the difficulty should not be insurmountable.

Adverting to a recent incident with regard to the purchase of a half share in a rabbit, a correspondent of the *Times* has contributed the following anecdote:—

Once a Scotsman, Angus McTavish, who lived outside Ecclefechan, bought a cow, which was the talk of the countryside. His son-in-law greatly admired the animal, seeing which the old man offered to sell him a half-share in it. This was agreed to, and Sandy, the son-in-law, paid over the money to the old man for his half-share and thus became joint proprietor of the cow. The next day the son-in-law called on the old man with a pail for his half of the milk that came from the cow. Mr. McTavish, however, explained that he had not sold to him that half of the cow. It was the "ither end" he had sold him—that is, the horns, lungs, heart and forelegs, and he expected Sandy to come and feed and water the beast, as he wanted his "end" to live. Thus, one sees the danger of buying a half-share of a live animal.

Sir Arthur Whinney on Industry and the Profession.

THE Presidential Address of Sir Arthur Whinney at the autumnal meeting of the Institute of Chartered Accountants will be perused with interest by Incorporated as well as by Chartered Accountants. Delivered to members of his own Institute it should not be analysed too closely from the Society's standpoint. At the same time, Sir Arthur showed himself capable of taking a wide and tolerant view not only of national but of professional interests.

Sir Arthur Whinney exercised a wise discretion in devoting the first half of his address to the position of industry. Accountants can no longer view the industrial and commercial life of their country from the aspect of the office window. They are a part, and an important part, of the great organisation of business, and everything that affects the business community has its repercussion in professional work. On the subject of industrial disputes Sir Arthur rightly urged that it behoved us as a great profession whose work calls us into all sorts of positions, often where we are able to see both sides, to concern ourselves with a matter which so vitally affects the national interest.

Turning to concerns of more domestic interest, Sir Arthur Whinney deplored the ever increasing number of bodies "whose activities tend to confuse the public into the belief that such bodies are of the same status as our own." He added, "I am not of course referring to the Scottish or Irish Chartered Accountants or the Society of Incorporated Accountants and Auditors. Although we are not related to these bodies, we recognise that their professional excellence enables us to work in harmony with them." There was a difference, said Sir Arthur, between these newer bodies and their own, and they never could be akin to them. The Council of the Institute had fought out the question on more than one occasion, and had endeavoured to impress upon Parliament that in undertakings in which public money was employed the audit of accounts should, in the public interest, be entrusted to members of one of the Chartered Societies or of the Incorporated Society. Sir Arthur Whinney proceeded to make the sad but true reflection that if the fusion of the Institute with the Society which was contemplated in 1896 had been carried into effect, the profession would have become a closed profession, and these other bodies would never have seen the light of day. We do not desire to rake up the ashes of dead controversies, but had the Council of the Institute of 30 years ago possessed the same vision as their successors of to-day the profession's prestige, enhanced as it is under present conditions, would, through consolidation, have become a force for good whose power to teach sound economic truth might have had a marked effect in the consideration of questions which affect capital and labour, and which so often appear to the public incapable of solution.

Apart from this view of the matter, constant friction is being created both at home and in some of the British Dominions by attempts to usurp professional descriptions, the value of which, although derived from high sources of authority, has been made and maintained by the character and

work of those members of the profession to whom they belong. It is a pity that the Institute of Chartered Accountants did not assert in the Courts their right to the designation "Chartered Accountant" previous to the action brought by the Society in the year 1907 to protect the designation "Incorporated Accountant." The Institute may have been hampered by the fact that the designation "Chartered Accountant" was derived from the three Chartered Societies in Scotland, who used and had obtained legal protection for the letters "C.A." as their professional designation.

There is no doubt that the bodies of Chartered Accountants are now fully able legally to assert their rights in Great Britain and Ireland to a title or description which morally belongs to them throughout the world. Mr. Justice Warrington (whose recent elevation to the House of Lords gives general satisfaction) said, in his lucid judgment in the action brought by the Society of Incorporated Accountants and Auditors in 1907, that he was not sure that the term "Chartered Accountant" was not as inaccurate (as a description) as the term "Incorporated Accountant," for in no sense of the word had a Chartered Accountant a charter. He was a member of a chartered society. "Chartered Accountant" and "Incorporated Accountant" were really fancy terms to distinguish the members from other accountants. In another part of his judgment the learned Judge said that obviously the possession of a definite status was an inducement to persons to qualify as members, and anything which tended to reduce the value of that status would tend to remove some of the inducements which would actuate persons into becoming members. We refer to these passages in the judgment because, from another point of view to that of Sir Arthur Whinney, they support his protest against what is happening in the Union of South Africa, where a private company has been formed under the title "The Society of Chartered Accountants in the province of the Cape of Good Hope," with special power for members of the company to use the designation "Chartered Accountant." If these members of the profession in South Africa wish for the benefits to be derived from a charter they should take the proper course of making out a case to the Privy Council, but they should not endeavour to usurp a qualification which is of value because there is in the United Kingdom a reputation of more than half a century's honourable endeavour behind it. The position of the Society of Incorporated Accountants and Auditors cannot be made too clear, although it has been stated over and over again. The members have made their own professional designation and have successfully appealed to the

Courts for its protection. The Society throughout its career of 41 years has never countenanced any attack upon the designation of "Chartered Accountant," but has used every endeavour to maintain the value of its own description. The action of the accountants in South Africa referred to by Sir Arthur Whinney does not and cannot have any support from the Society, and it is to be deeply regretted that those accountants who desire a common designation throughout the Union have not had the courage to fight their way to professional recognition under their own banner. Sir Arthur Whinney did well to point out that the greatness of the profession is built up upon the character of the persons who compose it, upon their individual talent and individual integrity, and upon the correct view of the responsibility which they owe to the public and to one another.

Gifts in Contemplation of Marriage.

IN regard to gifts given in contemplation of marriage, it is first necessary to ascertain whether the gift is absolute or conditional, and if conditional, whether it is subject to any express or implied conditions. If absolute, the gift is not revocable notwithstanding that the contemplated marriage does not take place. Where a gift is made subject to an express condition the gift is revocable or irrevocable by reference to that express condition.

As to gifts where no express conditions are made, the following conditions are to be implied:—

- 1.—If the contemplated marriage does not take place through the fault of the recipient of the gift, the gift must be returned to the donor or his executors.
- 2.—If the contemplated marriage does not take place through the fault of the donor, the recipient is entitled to retain the gift.

In *Cohen v. Sellar* (1926) 70 S.J., 505) it was held that where a man gives a woman an engagement ring in contemplation of a marriage taking place, and then, without a recognised legal justification, refuses to carry out his promise of marriage, he cannot demand the return of the ring. This followed *Jacobs v. Davis* (1917) 33 T.L.R., 488, which held that where on an engagement to marry an engagement ring is given by the man to the woman there is an implied condition that if she breaks off the engagement the ring shall be returned.

If, therefore, a woman who has received a ring refuses to fulfil the condition of the gift she must return it.

In *Robinson v. Cumming* (1742) 2 Atk., 409), where a distinction between absolute and conditional gifts was made, it was said that if a person has made his addresses to a lady for some time upon a view of marriage and, upon reasonable expectation of success, makes presents to a considerable value and she thinks proper to deceive him afterwards, it is very right that the presents themselves should be returned or the value of them allowed to him; but where a person makes presents to obtain introduction to a woman's acquaintance and by means thereof to gain her favour, he is looked upon in the light of an adventurer, especially when there is a disproportion between the lady's position and his. Therefore, like all other adventurers, if he will run risks and loses by the attempt he must take it for his pains.

In *Jeffreys v. Lack* (1922) 153 L.T.N., 139) the plaintiff, in contemplation of the marriage of his daughter, gave the defendant £250 to buy a motor car, and as the defendant broke off the engagement the plaintiff was held entitled to recover the value of the gift made.

Where the marriage does not take place through no fault of either party, i.e., where there is impossibility of performance as in the case of death of one party, apparently the gift may be retained by the recipient and the executors of the deceased are not entitled to recover (*Lockyer v. Simpson* (1724) Mosely, 298). In this case apparently the judgment was based on the fact that the gift was an absolute gift. In *Hammond v. Hicks* (1686) 1 Vern., 492) the parties being about to marry surrendered their respective copyhold estates to the use of them two and the survivor of them. The man died before marriage and the woman entered on the lands. After thirty years' quiet enjoyment she was ordered by the Court to surrender them and account for the profits, on the ground that, as the marriage never took effect, it was a trust for the intended husband and his heirs until the marriage took effect.

The doctrine of impossibility of performance was explained in *Chandler v. Webster* (1904) 1 K.B., 493). There the plaintiff took a room from the defendant to view the coronation procession, and agreed to pay therefor at once the sum of £141 10s. He paid £100 on account, and the balance was unpaid and due when it was ascertained that the procession could not take place. It was held that the plaintiff not only could not recover the £100, but must pay the £41 10s. which he ought to have paid before the King's illness was announced. Lord Justice Romer said: "Where there is an agreement which is based on the assumption by both parties

that a certain event will in the future take place, and that event is the foundation of the contract, and, through no default by either party, and owing to circumstances which were not in the contemplation of the parties when the agreement was made, it happens that, before the time fixed for that event, it is ascertained that it cannot take place, the parties thenceforth are both free from any subsequent obligation cast upon them by the agreement; but, except in cases where the contract can be treated as rescinded *ab initio* any payment previously made, and any legal right previously accrued according to the terms of the agreement will not be disturbed." The Master of the Rolls said: "Where the parties have made no express stipulation that money paid for viewing the procession shall be returned in the event of no procession taking place, and where, under the circumstances of the contract, no condition to that effect can be implied, the result of the procession being prevented from taking place is that, the further performance of the contract having become impossible, the person who has paid his money in pursuance of it, on the footing of the contract being subsequently performed in full, must, nevertheless, abide the loss of what he has paid; and the person to whom a sum would have become payable on performance of the contract must also abide the loss, and cannot impose on the other party the obligation of paying that sum; in the event which has happened, the fulfilment of the contract having become impossible, both parties are relieved from further performance of it." In *New Zealand Shipping Company v. Société des Ateliers* (1918) 84 T.L.R., 400) Lord Finlay said: "It is a principle of law that no one can in such case take advantage of the existence of a state of things which he himself produced."

In *Cohen v. Sellars* Mr. Justice McCardie said that if an engagement ring were regarded as a pledge or deposit for the fulfilment of a contract, a person who wrongfully refused to carry out the bargain would lose his deposit. If the marriage did not take place either through the death of, or through a disability recognised by law on the part of, the person giving the ring or other conditional gift, in such case the condition was to be implied that the gift should be returned. For although such a gift could not be dissociated from the engagement to marry, yet under the circumstances of betrothal gifts, there should be no application of the operation of such decisions as *Chandler v. Webster* (ante). If the marriage actually took place then the engagement ring or like gift would in the absence of express agreement to the contrary become the absolute property of the recipient, and the property would not be diverted by subsequent divorce.

INSTITUTE OF CHARTERED ACCOUNTANTS.

Autumnal Meeting in Bristol.

The Institute of Chartered Accountants in England and Wales held their autumnal meeting in Bristol, on October 14th, 15th and 16th, the attendance with ladies numbering some 400.

OFFICIAL WELCOME.

The meetings were held at the Guildhall, where the members were welcomed by the Lord Mayor (Alderman Frank Moore), who said he had not had the honour of welcoming a more distinguished conference during his year of office. The President (Sir Arthur Whinney, K.B.E.), in proposing a vote of thanks to the Lord Mayor, said they had come there for the purpose of passing in review certain matters which might be described as domestic in character, and also for the purpose of taking counsel with each other to see to what extent they might be able to improve their position and render greater service to mankind.

After the civic welcome Sir Arthur Whinney delivered his Presidential Address, which is reported in full in another column.

Mr. CLARE SMITH (Bristol), in proposing a vote of thanks to Sir Arthur Whinney, said the President, while taking a pessimistic view of the country, had adopted an optimistic view in regard to their profession. He referred to the interesting fact that it was the first time on which they had had the son of a previous President in the chair. Mr. S. W. CORNWELL (Bristol) seconded, and the resolution was carried unanimously.

COST ACCOUNTS.

SIR ARTHUR LOWES DICKINSON read a paper on "The Construction, Use, and Abuse of Cost Accounts." He said that in recent years much attention had been given to cost accounting, in the use of which this country had, up to the outbreak of the war, been very backward as compared with the United States and still had much leeway to make. The pre-eminence in foreign trade which this country had enjoyed in the past was now seriously threatened by competition from other countries with greater natural resources, lower real rates of wages and greater production per person employed; while endeavours were being made—as to the success of which there was much difference of opinion—to meet this competition by the imposition of protective duties masquerading under the guise of "safeguarding of industries," the only real remedy lay in greater efficiency and lower costs per unit of production and sale. These problems called more and more for an accurate knowledge of costs of all operations from the production of staple raw materials to the delivery of the finished products to the ultimate consumer at home or abroad, and to meet that demand the construction and proper use of cost accounts were necessary adjuncts. It was perhaps to the neglect of general principles and to the too great elaboration of details that the abuse of cost accounting so frequently observed was mainly due. The elaborate details formed interesting mathematical studies rather than aids to cheaper and more efficient production.

PUBLICITY IN COSTS OF PRODUCTION AND DISTRIBUTION.

At the close of his survey of cost accounts, Sir Arthur said that the relations between capital and labour and between the producer and consumer were at present very much under discussion. If industry, and all it meant for the maintenance in reasonable comfort of a congested population, was to survive, it was clear that the era of suicidal strikes must be quickly banished and superseded by some more sensible

methods of avoiding, if possible—but at any rate of settling—disputes. The impression was gaining ground that the present disastrous conditions were largely due to the intense secrecy which prevailed as to the real costs of production and of the disposal of the resulting profits. If every producer and wholesale and retail dealer were to publish the salient features of his business none would be unduly prejudiced unless he were retaining an undue profit. The experience of those members of a trade who were doing well would be available for the use of others doing badly; in fact, the same comparison of costs would be available between different producers as was now available within one organisation as between its different factories. Such publicity in the long run would tend to reduce cost of production and of distribution throughout the industry, to a fair division between wages and profits, and to a fair price to the consumer. A beginning of new methods, however inefficient, had been made in the coal industry. While the present results were somewhat disastrous, it would seem from the report of the Coal Commission that the disaster was in fact to a great extent the result of many old-fashioned and inequitable methods which that Commission had disclosed. The foundation of better methods must be publicity, and publicity in a form and sense that was at present little understood, but essentially publicity in costs of production and distribution, with a fair price to the consumer and a fair division of the balance between labour and capital. For the solution of this problem it was essential that service to the community should play a much larger part in industry, and at least an equal part with individual profit. The present idea that a business belonged only to those who own the capital therein must give place to a new spirit that it belonged to all who contributed to its success, whether as capitalists or as brain or manual workers, and was a trust for the benefit of the consumer and the nation.

In the discussion which followed Mr. F. LINDSAY FISHER (London) doubted if the time had arrived when the successful manufacturer would become sufficiently altruistic to reveal his good results for the benefit of the manufacturer who was doing badly.

Mr. H. FITCH KEMP (London) held a similar view, and asked how many of them as Chartered Accountants would like to disclose all their business results to their staff and articled pupils.

SIR ARTHUR DICKINSON, in replying, said he did not think what he had suggested could be called socialistic in the sense of the term as modernly applied, but they should have ideals on which they should work.

Luncheon at the Grand Hotel.

The members were entertained to luncheon at the Grand Hotel by the Bristol Society of Chartered Accountants, the chair being taken by Mr. E. A. HARRIS, F.C.A., who said the attendance was flattering to Bristol. The President thanked the Bristol Society for their hospitality.

Afternoon Session.

In the afternoon, Mr. ROGER N. CARTER, M.Com., F.C.A., read a paper on "The Evolution of our Present Income Tax System," and pointed out that it was an interesting fact that out of the £800,000,000 it now produced £300,000,000 of it was based on an Act of Parliament passed as long ago as 1842. He gave an interesting summary of the history of the income tax, imposed in 1798 as an aid to war by Mr. Pitt, and dropped again in 1816. It was revived under Sir Robert Peel in 1842 as an aid to commerce; and the Income Tax Act of 1918 and the changes made as the result of the Royal Commission of 1919.

Mr. D. S. FAIRF (London), in opening the discussion, said there must be a feeling of admiration for the way in which

legislators and committees had striven to make the income tax laws still more and more equitable; reasonable and effective. Taxpayers' feelings of injustice were really inspired much more by the rate of the tax than by any other circumstance. 37½ per cent. of the total revenue the Government was collecting to-day by means of the initial Act of 1842, and in doing so they were materially assisted by Chartered Accountants spread over the world. Any great simplification would be difficult as long as it was desired to preserve all the concessions and reforms which had been made.

Sir LEONARD COATES (London) said Mr. Carter had shown them that the principle that the taxpayer should be assessed upon his own return of income was undoubtedly in harmony with the national temperament and it was the only practicable one to apply to the assessment of business undertakings. It was, however, questionable whether principle had not been carried too far in regard to incomes assessed under Schedule E.

Mr. CROCKER (Southampton) and Sir A. L. DICKINSON joined in the discussion, which was replied to by Mr. CARTER, who said the agitation for simplification of forms had led to there being eight pages instead of four, as formerly. He agreed with the suggestion that when a taxpayer was successful in the Courts below and was taken by the Crown to the higher Courts, the Crown should pay the costs whatever happened.

On the motion of Mr. CLARE SMITH (Bristol), seconded by Mr. J. EDWARD GRACE (Bristol), a hearty vote of thanks was passed to Mr. CARTER for his paper.

Hospitality and Functions.

Following the luncheon the ladies were taken a short tour of the city in motor coaches, and afterwards with the members visited the Red Lodge, an Elizabethan mansion, which they inspected with much interest. They were entertained to tea. In the evening the Lord Mayor and Lady Mayoress gave a civic reception in honour of the visit of the Institute at the Fine Art Gallery, and many representative citizens were invited. The guests were received by the Lord Mayor, the Lady Mayoress, the Sheriff, the President and Vice-President of the Institute, and the President of the Bristol Society.

Friday's Proceedings.

In the morning the members visited the University, St. Mary Redcliff, and the tobacco factory of Messrs. W. D. and H. O. Wills at Bedminster, and returned to the Grand Hotel for luncheon, where they were again the guests of the Bristol Society, Mr. S. W. Cornwell (Vice-President) being in the chair. In the afternoon a visit was paid to the new chocolate factory of Messrs. J. S. Fry & Sons at Somerdale, and afterwards the party returned to the Bristol offices of the firm where they were entertained to tea.

Banquet.

There was a brilliant gathering at the annual banquet in the evening at the Royal Hotel, the chair being occupied by Mr. E. A. Harris (the President of the Bristol Society), and he was supported by the Solicitor-General (Sir Thomas Inskip, K.C., M.P.), and the leading representatives of the profession and commerce in Bristol.

Following the loyal toast, Sir WILLIAM PLENDER proposed the toast of "The Houses of Parliament," and said much had been done in recent years by legislation to alleviate hardship and inequalities and to make life less drear for the toiling millions of our people, and to cement more closely the bonds of Empire. Westminster was still the Mother of Parliaments and the model of all others. The House of Lords, in spite of its limitations, still played its part, and a not unimportant part in the Government of the country. Might they not hope, by the consent of all political parties, it would be enabled to take a more effective part in Parliament, not by interference

with the House of Commons but by the initiation of proposals for needed reforms.

Sir THOMAS INSKIP replied, and said as long as Parliament performed its proper functions the British nation would triumph over the great difficulties which from time to time assailed it.

Sir H. LLEWELLYN SMITH, G.C.B., proposed the toast of "The City of Bristol" in an eloquent and graceful speech. He said he had been told Bristol was the cradle of accountancy.

The LORD MAYOR replied, and said they were very proud of their local accountants, especially when they got clients their income tax reduced. (Laughter.)

Colonel Sir FRANK BEAUCHAMP, Bart., proposed the toast of "The Institute," and said he had been struck by the qualifications, mentioned by the President in his address, necessary to become a Chartered Accountant. It seemed to him to be a Chartered Accountant it was necessary to be not only the most honest but the most knowledgeable of men. The coal mining industry, recognising their fairness, had appointed as independent arbitrator in differences between the masters and the men on the 1921 national agreement, Sir William Plender, but the accountants on either side had done their work so well that Sir William's services were not often called for. (Laughter.) Sir Frank alluded at some length to the coal stoppage, and said Chartered Accountants could do an important public service by pointing out that all industry could only be run on an economic basis.

The PRESIDENT (Sir Arthur Whinney) replied, and said that they had assembled there as Chartered Accountants for the purpose of what might be described as professional stock-taking. After dealing in humorous vein with the modern tendencies in dress, art, &c., which suggested half the world was insane, he said—turning to the more serious side of the subject—if anyone descended on this earth from the glimpses of the moon, what on earth would they see in this United Kingdom of ours? We possessed wealth hidden away in the earth which was of unbounded value, yet a million men engaged in a most important industry preferred a slogan to wages. That seemed to him to be preposterous and another sign of insanity when the miners preferred poverty and distress to wages. Sir Llewellyn Smith had alluded to the progress of Bristol and its greatness, which in fact had grown out of corporate life. He was quite sure that they would not be at issue with him when he said that corporate life was one of the greatest safeguards the world possessed against instability and insanity. In a multitude of counsellors there was safety, and corporate life gave them that safety. They would do well to hang on to it, for it would prevent any of them sharing in the insanity which they saw sweeping over the world. Corporate life was also true as regards their profession and was expressed in the Institute, which he hoped would long maintain its great traditions and enable the members to advance their usefulness and assist mankind.

At the close of his speech, the PRESIDENT presented on behalf of the Council to Mr. S. W. Cornwell, the honorary secretary of the Conference, a handsome silver salver of George II period, and spoke of the excellence of the arrangements.

Mr. CORNWELL suitably acknowledged the gift.

Mr. CLARE SMITH proposed the toast of "Our Guests," and the BISHOP OF BRISTOL replied in a witty speech.

Mr. R. H. MARCH proposed the toast of "The Chairman," and mentioned that it had been hoped to have had the Conference at Cardiff this year, but on account of the industrial situation they thought it best to postpone the invitation. They, however, hoped it was only a pleasure deferred.

The CHAIRMAN made a suitable response, and this concluded the toast list.

Visit to Bath.

On Saturday a party of over 200 went to Bath, on the kind invitation of the Mayor (Alderman Cedric Chivers), who offered the members a hearty welcome at the Grand Pump Room, and a vote of thanks was proposed by Sir Wm. PLENDER. A tour of inspection was made of the Roman Baths, the Abbey, places of historic interest, and the modern bathing establishment.

Afterwards the visitors were entertained to luncheon at the Guildhall, the members being received by the Mayor and the Mayoress (Madame Sarah Grand).

The Mayor proposed the toast of "Chartered Accountants" in a happy speech, and a fitting reply was made by the PRESIDENT. The PRESIDENT of the Bristol Society (Mr. Harris) submitted the health of the Mayor and Mayoress, who both made appropriate acknowledgments.

CARLISLE AND DISTRICT INCORPORATED ACCOUNTANTS' STUDENTS' SOCIETY.

ANNUAL MEETING.

The annual meeting of this Society was held in the Municipal Offices, Carlisle, on October 21st. Mr. Edmund Lund, F.S.A.A., the President of the projected Cumberland and Westmorland District Society, occupied the chair, and was supported by Mr. E. J. Williams, F.S.A.A., Vice-President of the District Society, Mr. R. Simpson Duthie, C.A., A.S.A.A., Hon. Secretary of the District Society, Mr. G. R. Clark, A.S.A.A., Mr. Harold Graham, A.S.A.A., Mr. F. Layfield, A.S.A.A., and a large number of students. The report and accounts for the last session were adopted.

The Chairman explained the effect of the formation of the new District Society for Cumberland and Westmorland on the Students' Society, pointing out that the Students' Society would now become part of the District Society. There would, however, be no objection to the election of a separate Hon. Secretary and Treasurer. The meeting unanimously appointed Mr. Harold Graham, A.S.A.A., Hon. Secretary of the Students' Section of the Society, together with a small Advisory Students' Committee.

At the conclusion of the meeting the first lecture of the session was given by Mr. W. H. Grainger, A.S.A.A., of London, on "Stock Exchange Transactions." Mr. Grainger gave an interesting outline of the workings of the Stock Exchange, explaining in detail how the various operations are carried through.

Report.

The Committee have pleasure in submitting to the members the second annual report and accounts. They desire to place on record an expression of thanks to those gentlemen who have delivered lectures to the Society during the session, to the Finance Committee of the Carlisle Corporation for having allowed the use of a room for the meetings, and to the Parent Society for a grant.

MEMBERSHIP.

The number of subscribing members on the roll is 38, an increase of four on the number last year. All members in practice are invited to join and draw the attention of their staffs to the advantage of joining the District Society.

LECTURES.

Six lectures were delivered during the 1925-26 session, and were well attended by members and visitors. Owing to the regretted death of Mr. J. M. Fells, the lecture on "Costing" was delivered later in the session by Mr. H. J. Lunt.

EXAMINATIONS.

Our congratulations are extended to the following successful candidates at the Society's examinations during the year:—Final examination, Mr. G. C. Clark; Intermediate examination, Mr. J. B. Mark and Mr. A. A. Seaton.

Mr. John Potter, F.S.A.A., of Messrs. John Potter & Harrison, Incorporated Accountants, Blackpool, has been added to the Commission of the Peace for the Borough of Blackpool by the Chancellor of the Duchy of Lancaster.

Some Points on the Finance Act, 1926.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. W. D. ELGAR, F.C.A.,
INCORPORATED ACCOUNTANT.

The chair was occupied by Mr. WILLIAM STRACHAN, Incorporated Accountant.

Mr. ELGAR said: It is generally admitted by those competent to judge that the present Finance Act is the most involved and far reaching in the change of the principles of assessment to income tax since the tax was re-imposed in 1842, since it alters the basis of assessment of the largest revenue producing businesses. It is not my intention to deal with each section, as not only would time not permit but I question whether my object in giving this paper would be achieved. My intention is to run very briefly over the sections in Part III of the Act (Nos. 19 to 27) and then to pay more particular attention to the sections dealing with the abolition of the three years average and the introduction of the new basis, which, it must be borne in mind, will not be operative until 1927-28.

I will therefore proceed to deal with Part III, sects. 19 to 27, as indicated, before concentrating on Part IV of the Act:

Sect. 19 states the rates of income tax and super tax for the year 1926-27, which are the same as those for 1925-26.

Sect. 20 gives to certain non-resident individuals the right of appeal within three months of the date of a decision of the Commissioners of Inland Revenue under sect. 24 of the Finance Act, 1920, to have the case heard by the Special Commissioners, and thence (if a point of law is involved) by the Courts.

Sect. 21 is self-explanatory.

Sect. 22.—This is the expected legislation to settle the question which was raised in the noted case of *Whelan v. Hemming* (10 T.C., 263), in which was given the surprising verdict—"No income in the year of assessment, no liability to tax." It establishes that so long as the source of income continues to be held there exists a liability to tax. No relief is to be given under Rule 3 of the Miscellaneous Rules. Note sub-sect. (2), which prevents the retrospective application of the principle decided in the case referred to.

Sect. 23 gives statutory sanction to the agreement arrived at between the Irish Free State and the British Government, which you will find in the Second Schedule, page 39. By the new method of assessment the cumbrous provisions for relief are swept away except in the case of a person resident in both countries. There are two main points to remember:

1.—Each country will give relief at one-half of the lower of the taxpayer's two appropriate rates of tax (British and Irish Free State).

2.—"Appropriate rate" is to be determined by dividing total tax payable by total income, not by taxable income.

For 1926-27 all Irish Free State income of a British resident is assessable here as having arisen in this country and is not assessable in the Irish Free State. Conversely, all British and Northern Ireland income of an Irish resident is assessable there as having arisen in that country, and is not assessable here.

Sect. 24.—This is merely to ensure that tax is deducted at the source on payment of dividends or interest on loans, &c.,

issued by the Government of Northern Ireland wherever the persons entitled to the dividends, &c., may be resident.

Sect. 25 enacts that future appeals against assessments must state the grounds of appeal, and also gives power to the General Commissioners to confirm such part of the assessment as is not in dispute. This is clearly in order to facilitate the collection of outstanding income tax, and it would appear to be advisable to state all grounds of appeal which might affect the amount of the assessment, although it is permissible to go into further grounds of appeal at a later stage if the Commissioners are of opinion that the omission to state such grounds was not wilful or unreasonable.

Sect. 26 is self-explanatory.

Sect. 27.—You will observe that the extension operates forward from 1923-24, the six year time limit being restricted to cases of excessive assessment made after April 5th, 1923.

This brings me to Part IV of the Act, which I wish to deal with more fully as it has to do with the change in the basis of assessment from that of the familiar average system to the income of the year preceding the year of assessment. I would refer all interested in the far-reaching change in the method of assessment as contained in this Part of the Act to the Report of the Royal Commission on the Income Tax Act, 1920, page 104 and following. Permit me to read a few excerpts to show you that the present legislation is the outcome of the recommendations contained in that Report (read 471, 477, 479 and 482).

It is also interesting to read a memorandum of objection to the new basis which was submitted by the Association of British Chambers of Commerce I.T.S., page 439.

Instead of taking the clauses of the Act seriatim I am dealing with this part of it by discussing the effect of the new bases of assessment in various circumstances, viz:—

- 1.—The new basis of assessment on businesses and relief in cases of hardship occurring during the transition from the old to the new basis.
- 2.—Assessments upon new businesses and discontinued businesses.
- 3.—Assessment of other commencing and discontinuing income.
- 4.—Changes in partnership or ownership (these provisions are not operative until 1928-29).
 - (1) Where one or more individuals continue to have a direct interest in the proprietorship despite the change.
 - (2) Where there is a complete change of ownership.
 - (3) Where relief is given in respect of change in partnership or succession to a trade or profession coupled with a specific cause in the year 1927-28.
- 5.—Relief in respect of business losses.

I will now deal with my main headings.

THE NEW BASIS OF ASSESSMENT UPON BUSINESSES AND RELIEF IN CASES OF HARDSHIP OCCURRING DURING THE TRANSITION FROM THE OLD TO THE NEW BASIS.

Sect. 29 gives the new method of computing profits, which however does not become operative until 1927-28. It does not require illustration. It is clear that a business whose financial year ends on any date from April 6th, 1926, to April 5th, 1927, will be assessed in 1927-28 on the profit as shown by the accounts for such financial year after making the usual adjustments in respect of items not properly chargeable, &c. Proviso 3 of this section sets out the relief during the transition stage, which closely follows the recommendations

of the Royal Commission. I will give an illustration of how the relief works:—

1927-28.—Assessed upon profits of preceding year. Example:

		Profits.	
Calendar year 1924	..	£3,000	
" " 1925	..	400	
" " 1926	..	2,000	
		3) 5,400	
		1,800	Average Assessment 1927-28.
		£2,000	New Basis 1927-28.

But should the taxpayer prove, on giving the Inspector of Taxes notice not later than October 5th, 1927, that either of the first two of the three years was below the average of the six years prior or of such period as the person was in possession of the source of such profits then he can exercise the option to continue the three years average for 1927-28 and 1928-29.

The profits of the preceding six years I will assume to be as follows:—

1923	..	..	..	..	£1,000
1922	..	..	..	..	1,500
1921	..	..	..	..	3,000
1920	..	..	..	..	4,000
1919	..	..	..	..	3,000
1918	..	..	..	..	2,500
				6) 15,000	
Average	..	..	..	..	£2,500

The six years average of £2,500 being in excess of the profit of £400 for 1925, the taxpayer can elect to be assessed upon average which in the above case would be beneficial to the taxpayer, and for 1928-29 the average would also be beneficial unless the actual profits of 1927 dropped to less than £1,200.

By way of a second illustration I will change the figures as follows:—

		Profits.	
1924	..	..	£600
1925	..	..	4,000
1926	..	..	2,000
		3) 6,600	
Average Assessment, 1927-28		2,200	
New Basis, 1927-28	..	..	£2,000, being 1926 Profit.

Assuming the average of the previous six years to be the same as in the last example, the taxpayer would obviously not exercise his option to be assessed upon average as it would result in an additional assessment of £200, and, furthermore, for 1928-29 he would have to bring into average the comparatively large figure of £4,000 for profit made in 1925.

If either of the years 1924 or 1925 (say the latter) shows a loss, the benefit of that loss in average would be lost by the application of the new basis. This, however, would only occur where it was not of benefit to claim the average for 1927-28 and 1928-29, in which case there must have been a fairly considerable profit in 1924, the bringing of which into average for 1927-28 would be a disadvantage.

A new business that has not three years of average to form the basis of the 1926-27 assessment has no option to adopt the three years average for 1927-28 and 1928-29 in any circumstances. This might conceivably involve some hardship, as if 1924 and 1925 both showed considerable losses, but 1926 is a profitable year, the assessment for 1927-28 will

be on the profit of 1926, and the benefit of the losses in 1924 and 1925 is lost with the passing of the average.

My next heading refers to new businesses and discontinued businesses (sects. 29 and 31 respectively of the Act).

You will observe in the Fifth Schedule that the familiar Rules applicable to the commencing and ceasing of a business are to be repealed. Where a business commenced in the year prior to the year of assessment, the profits for the proportionate period to April 5th would form the assessment for the first year, and that of the second year would be based on the actual profits of the first year of trading with the right under proviso (a) of sect. 29 on giving notice in writing to the Inspector of Taxes within twelve months after the year of assessment, to have the statutory profit adjusted to the amount of the actual profits or gains of the year of assessment. You will notice that by proviso (b) when dealing with Cases IV and V the third year can be adjusted in a similar manner, thus bringing them into line with the method of assessing profits under Case III which was introduced by sect. 17 of the Finance Act, 1922. No such third year adjustment can be made in respect of business profits. These adjustments are at the option of the taxpayer, and I will give an example of a business commencing on January 1st, 1926, and ceasing on June 30th, 1930, first dealing with the commencing period.

Business commenced January 1st, 1926, and permanently discontinued June 30th, 1930.

Profits—

Year to December 31st, 1926	£1,000
" " 1927	800
" " 1928	1,200
" " 1929	1,500
Half Year to June 30th, 1930	700
1925-26—Quarter of	£1,000 = 250
1926-27	1,000
1927-28	1,000
1928-29	800
1929-30	1,200
1930-31	1,500

Reduced to £950 (sect. 29 (1) (a), being $\frac{2}{3}$ of 1926 profit plus $\frac{1}{3}$ of 1927 profit).

It will be seen that the second year of assessment is the only one that can be adjusted, and for this purpose the taxpayer must give the prescribed notice.

We will now deal with the discontinuance of a business. The profits have to be adjusted as laid down by the Act, and I wish to make it clear that it is the adjustment of the last year in which the discontinuance takes place that is not optional but mandatory, while the adjustment of the penultimate fiscal year is optional to the Commissioners of Inland Revenue. This option corresponds to the option of the taxpayer as regards the second year (proviso (a) of sect. 29).

1930-31.

Assessment.

Proportion of £700 from April 6th to June 30th, 1930	£350
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1929-30.

Revision of Assessment.

Proportion of £1,500 from April 6th to December 31st, 1929, three-fourths	£1,125
Proportion of £700 from January 1st to April 5th, 1930	350
	£1,475

As the original assessment for 1929-30 was only £1,200, an additional assessment will require to be made in the sum of £275 to bring the figure up to £1,475 as shown.

In the case of the death of any person who would become liable for additional tax, e.g., by adjustment of the assessment for the penultimate year, provision is made for the assessment to be made upon his executors or administrators.

ASSESSMENT OF OTHER COMMENCING AND DISCONTINUING INCOME.

Sect. 30 provides that all profits or income chargeable under Rule 1, Case III, or under Case IV or V, may be assessed and charged in one sum. It also provides for adjustments on the analogy of sects. 29 and 31.

- Where there is either a diminution or an increase of the source or sources falling within any one of these cases; and
- When income chargeable under Cases IV and V becomes taxable by deduction or *vice versa*.

This section meets the difficulties made apparent in *Grainger v. Mrs. Maxwell's Executors*.

It will perhaps be of interest to outline briefly the steps that led to the present position. Income under Case III was originally assessable upon the basis of the previous year's income. It was, however, decided in *Brown v. National Provident Institution* that the source of income must exist in the year of assessment, and, consequently, whereas a taxpayer was not assessable in the first fiscal year of possession (there being no preceding year's income) he was also not assessable in any fiscal year if he had parted with the source of income prior to the commencement of that year. This state of affairs was remedied by sect. 17 of the Finance Act of 1922, which, broadly speaking, provided for assessment of the income of the first two years and granted relief in the third year where the application of the preceding year basis created a hardship. A further development came with the case of *Grainger v. Mrs. Maxwell's Executors*, when it was decided that the source of income under Case III could be subdivided into particular sources of income from various classes of securities, so that although all that comes under Rule 1 of Case III can be assessed in one sum, any particular item of income is to be treated separately in determining the liability. Since income under Cases IV and V is now to be placed on the same basis as that of Case III, similar legislation is made by sect. 30 of the Act for dealing with the first three years of ownership, and, in addition, provision is made (by reference to sect. 31 as already indicated) for adjustment upon the discontinuance of income under Cases III, IV and V, the treatment of this being practically identical to that of a discontinued business, an illustration of the working of which has already been given.

CHANGES IN PARTNERSHIPS OR OWNERSHIP (NOT OPERATIVE UNTIL 1928-29).

We now turn to sect. 32, which is in substitution for Rule No. 11 of Rules applicable to Cases I and II of Schedule D, which affords so much mental activity as to the determining of what constitutes a "specific cause." The new section does not operate until April 6th, 1928, so that Rule No. 11 applies to all cases up to April 5th, 1928.

As indicated, I am treating these provisions under three headings:—

- Where there is a *partial* change in a partnership and one or more individuals continues to have a direct interest in the proprietorship notwithstanding the change, this will not affect the basis of assessment, subject to the following proviso: "Where all the persons who were engaged in the trade, profession or vocation both immediately before and immediately after the change require, by notice signed by all of them or, in the case of a deceased person, by his legal representatives, and

sent to the Surveyor within three months after the change took place, that the tax payable for all years of assessment shall be computed as if the trade, profession or vocation had been discontinued at the date of the change and a new trade, profession or vocation had been then set up or commenced, and that the tax so computed for any year shall be charged on and paid by such of them as would have been charged if such discontinuance and setting up or commencement had actually taken place, the tax shall be computed, charged, collected and paid accordingly." The particular point to notice is that if the option is exercised, not only is the business treated as a commencing one from the date of change, but the assessments up to the change must be adjusted as if the business had discontinued at that date. I have already dealt with figures showing how this is worked.

2.—Where there is a complete change of ownership, there being no individual in the new firm who was formerly proprietor or part-proprietor, then there is no option and the business must be treated as having entirely ceased at the date of the change, and from that date a new business must be considered as having commenced. In respect of both of these cases it is provided that in the case of the death of any person who would become chargeable under the section the assessment may be made upon his executors or administrators.

3.—Where relief is given by reason of a change in partnership or succession to a trade or business coupled with a specific cause of the falling short of profits in the year 1927-28 it is provided by sub-sect. (2) of sect. 32 that "the person or persons who after the change or succession are chargeable with tax in respect of profits or gains of the trade or profession shall be entitled, on giving notice in writing to the Surveyor not later than October 5th, 1929, to be charged to tax for the year 1928-29 as if the trade or profession had been set up or commenced on the date of the aforesaid change or succession, and, if the tax charged has been paid, any tax overpaid shall be repaid." In these circumstances only, there is no provision for treating the business as having been discontinued at the date of change.

In general, it may be remarked that the succession by a limited company to a business previously owned by a firm will doubtless be looked upon in every case as a complete change of ownership notwithstanding the continuing interest of shareholders who formerly had some control of the business. So also upon the death of the proprietor of a business, it will require to be treated as having ceased at date of death. It will be noted that reference is made to the "Surveyor," a person who we all understood had become an "Inspector," and who is undoubtedly the individual concerned. The explanation is that "Surveyor" is always used because the Income Tax Act, 1918, which is based on the old 1842 Act, contains a definition, and Parliament has never abrogated the title.

RELIEF IN RESPECT OF BUSINESS LOSSES.

At present if a loss is sustained by any person, he has one of two opportunities of immediate relief. If the loss is a "statutory" one and he has another business in which a statutory profit has been made for the year of assessment, he can off-set the statutory loss against the statutory profits (Rule 13, Schedule D). If he has not, and his loss was incurred in the year of assessment, then he can obtain immediate relief by sect. 34 of the Income Tax Act, 1918, the effect of which is that his loss can be off-set

against his other income for the year of assessment, and he thus becomes liable to income tax only upon the net figure. If the net loss exceeds the other income there is a balance which can be carried forward for average purposes. It will thus be seen that upon abolition of the three years average principle the balance of relief would no longer go into average for future years of assessment, and therefore some legislation was called for in this respect. The Act provides that a balance of loss can be carried forward for six years, during which time it will be exhausted by being off-set against assessments made upon the business. The loss must be applied in reduction or extinction of each successive assessment until exhausted. There are one or two aspects of these new provisions for dealing with losses which require consideration. It will be obvious that where a loss is made the statutory income of the business for the following year of assessment will be nil, so that any balance of loss for which immediate relief has not been given can only commence to be off-set against assessments on the business at the earliest after the following year has elapsed. To make this clearer I give an illustration:—

Loss 1926	£700
Less Relief obtained under sect. 34 of the Income Tax Act, 1918	400
	£300
Profit 1927	300
Profit 1928	900

The assessment for 1927-28 based on the accounts for 1926 would be nil, and therefore the balance of loss, £300, will be carried forward, and will be applied against the assessment for 1928-29, £300. The taxpayer would doubtless prefer to off-set it against the assessment for 1929-30 of £900, as there might be no liability in 1928-29 in respect of an assessment of £300 after taking into account personal allowances and reliefs. However, the Act leaves him no option in the matter. It is also interesting to note that whereas at present the off-setting of a statutory loss in one business against the statutory profit in another business does not prevent the actual loss from continuing to be brought into average; in future by off-setting the statutory loss in this manner it reduces or extinguishes the amount to be carried forward for the next six years. It should also be observed that a new owner of a business cannot bring forward the losses of the previous owner for his own benefit.

Provision is also made in the Act for losses on farms or woodlands assessed under Schedule D (at the taxpayer's election). These can only be carried forward so long as he continues to elect for assessment under Schedule D, and immediately he is assessed under Schedule B the benefit of the losses from previous periods is entirely forfeited.

This concludes my remarks with reference to Part IV of the Act. I do not purpose detaining you for more than a few moments over the clauses relating to the demise of Excess Profits Duty, sect. 38, which contains the necessary provisions for the clearing up of assessments and appeals is quite clear, and I do not think it is necessary to amplify the language used. I might, perhaps, make the observation that in my judgment when the future financial historian reviews the taxation of this country he will place his finger on that year when the Excess Profits Duty was instituted. As frequently pointed out, it was never intended to have anything like such a widespread application as it had, and it gave considerable inducement to extravagance, many of those liable to the duty taking the view that they were largely spending Government money when launching into schemes involving heavy expenditure. Further, it is easy to appreciate the effect upon the moral standard of taxpayers called upon

to pay such large amounts of duty to the Government, and it is well known that resort was had to all kinds of schemes in order to defeat the provisions of the Excess Profits Duty Act. The curtain is now "rung down" on the Act, for which all concerned will be thankful except those who have resorted to fraud to evade its provisions, such of whom as may hereafter be detected can still be made to suffer the full rigour of duties and penalties that the Act imposes.

On the motion of Mr. W. McINTOSH WHYTE (President of the Society), seconded by Mr. E. C. WAKELING, Incorporated Accountant, the Lecturer was thanked for his lecture, and a vote of thanks was also accorded to the Chairman for presiding.

Changes and Removals.

Mr. Donald H. Bates, Incorporated Accountant, has taken into partnership Mr. Roy Chapman, A.S.A.A., and Mr. W. C. Coxon, A.S.A.A. The firm will practise as Donald H. Bates & Co., Incorporated Accountants, at Victoria Buildings, Market Street, Longton, and Bank Chambers, High Street, Tunstall, Stoke-on-Trent.

Messrs. Cash, Stone & Co., Chartered Accountants, have taken into partnership Mr. H. W. Moberly, M.C., M.A., Chartered Accountant, and Mr. A. W. White, A.C.A., Incorporated Accountant. The style of the firm will remain as heretofore.

Mr. W. L. Hickes, Incorporated Accountant, has removed to 6, Jewry Street, London, E.C.3.

Mr. W. H. Higginbotham, Incorporated Accountant, has commenced public practice at 14, St. Peter's Square, Manchester.

Messrs. Holmes-White, Herbert & Co., have amalgamated with and taken into partnership Mr. Hubert Cashman, A.S.A.A., and will in future practise in the firm name of Holmes-White, Cashman & Herbert, Incorporated Accountants, at 476, Barking Road, Plaistow, London, E.13.

Messrs. Thomas May & Co., Incorporated Accountants, Prudential Chambers, Grey Friars, Leicester, have taken into partnership Mr. F. N. Parker, A.S.A.A., and Mr. C. M. Tustain, A.S.A.A. The name and style of the firm will be unchanged.

Messrs. Edw. Judson Mills & Co. have removed their Torquay office to 32, Fleet Street.

Messrs. Moss & Barker, Incorporated Accountants, have admitted into partnership Mr. Edward Raines, Incorporated Accountant, and Mr. J. M. Williamson, Chartered Accountant. The practice will be continued under the style of Moss and Williamson at Market Place, Ashton-under-Lyne.

Mr. Thomas Rodger, Incorporated Accountant, has removed to 29, Grainger Street West, Newcastle-on-Tyne.

Messrs. W. R. Smith & Co., Incorporated Accountants, have removed to Custom House Buildings, Whitefriar Gate, Hull.

Messrs. Smithson, Blackburn & Co., have removed to Atlas Chambers, King Street, Leeds.

Mr. S. I. Wallis, Incorporated Accountant, has removed to 3, King John's Chambers, Bridlesmith Gate, Nottingham.

Mr. G. R. Williams, Incorporated Accountant, has taken into partnership Mr. C. R. Humphries, and will practise under the firm name of Geo. R. Williams & Humphries at new offices at 26, Windsor Place, Cardiff.

Industrial and Business Amalgamations.

A LECTURE delivered before the Belfast and District Society of Incorporated Accountants and Auditors by

PROFESSOR F. T. LLOYD-DODD, M.A., D.Sc.

Professor LLOYD-DODD said: Perhaps the most marked characteristic of modern industry and commerce is the constantly increasing size of the average business unit. This change has operated in two ways—an increase in size of the individual business unit and an amalgamation of several units into one. Along side of this the form of organisation has also changed as the company form has largely replaced the individual owner and the ordinary partnership. A return issued in the United States of America before the war period indicates the extent to which great industries and large scale production dominated their manufacturing industries. Establishments whose annual output exceeded \$1,000,000 constituted less than 1 per cent. of the total number of establishments, but manufactured almost 50 per cent. of all the goods. The same return showed that in the manufacture of agricultural implements, to take a single illustration from many, between 1880 and 1905:

- (a) The number of establishments decreased from 1943 to 648.
- (b) The capital increased from \$163,000,000 to \$197,000,000.
- (c) The value of products increased from \$69,000,000 to \$112,000,000.

From the closing years of the 19th century the increase in the number of amalgamations has attracted public attention and aroused public anxiety. Manufacturing syndicates tend to obtain control of an entire branch of industry in a country and even in the world. There is the oil trust, the Steel Trust (capital said to be \$1,500,000,000), the coal trust, the tobacco, the writing paper, the copper trusts, and (formerly) the whisky trust. Even governments have been alarmed at the power developed by such bodies and have endeavoured to curb them—attempts which have proved very ineffective.

The cause which has led to the formation of such bodies is mainly the desire to secure the economics which spring from large-scale production. The large capital of a combine gives stability and power. It secures economy of labour through centralisation and a more perfect division of labour. There is economy in space and rent. One of the largest department stores in Paris had a rental of about £40,000 and a turnover of £6,000,000. A shop with a turnover of £6,000 would be paying in rent very much more than £40, which is in the same proportion. There is economy in buying and selling and in freight charges. There is economy in the use of natural agents and of specialised machinery. There is economy in the utilisation of by-products in carrying on allied or subsidiary processes, the elimination of unnecessary duplication, and in many other directions.

All this leads to a reduction in cost of production, which is one of the main factors in converting a small scale business into a large one, and in combining many smaller units into the great firm.

HISTORICAL AMALGAMATIONS.

But while the tendency towards combination in its different forms has been so marked in our own period, we must not assume that, like many other industrial and commercial problems, it is a product of the "industrial revolution." Examples of it can be found far back in history. So long

as industry and trade were purely local in character the need for combination did not make itself felt. But with the widening of markets and the pressure of outside competition there came, naturally, the longing for monopoly and the desire for amalgamation as a means to secure this end. This aim shows itself clearly in what are possibly the earliest amalgamations in the country—the Merchant Guilds. We find mention of these guilds towards the end of the eleventh century, and we find that in the thirteenth century they had been established in almost one-half of the English boroughs. A merchant guild, by virtue of its charter, exercised control over the trade of a borough, and in such cases as Newcastle it had the right of selecting the civic rulers. The aim of the guild was to discourage, if not to prevent, competition in its own sphere. While stranger merchants were not actually prevented from trading in the borough their dealings were strictly supervised, and they were compelled to pay dues and to submit to restrictions from which the guild members were free. But while the guilds were thus monopolistic in character, the consumers were protected from the resultant evils. By the rules of the guild, short weight, inferior quality, and speculation—such as the resale of goods in the same market at an increased price, or the holding back of goods for higher prices—were prohibited. It is difficult to say, however, how far this protection was effective in practice.

The next series of trade combines which stand out prominently in our history is that of the great trading companies. These companies, which were simply amalgamations of merchant adventurers, came into existence during the period when our foreign and colonial trade was beginning to develop. The economic policy of the day favoured monopoly, and could see no merit in free competition. The risks of foreign trade were considerable. Long voyages, storms, tempests, uncharted seas, attacks from pirates and from hostile natives, were part of a cumulative series of risks which could ill be borne by an individual merchant. True, a ship safely in port after a successful voyage meant a fortune to the venturer, but failure would have crippled him. Partly, then, with the desire of establishing a monopoly, partly for mutual protection, and partly with the idea of spreading their risks, these merchants amalgamated their resources. Exclusive trading privileges with certain parts of the world were sought for and obtained from the Crown, and the monopolies thus obtained were guarded with jealous care. The most important of these companies were the East India Company, trading east of the Cape of Good Hope; the Levant Company, trading with the Mediterranean and the East; the Guinea Company, trading with the West Coast of Africa; and the Russia Company.

These companies played a very important part in the development of our overseas trade, and it is exceedingly doubtful if the efforts of individual traders would have been nearly so successful.

In modern times the tendency towards combination was general for some years both in America and on the Continent before it appeared in England. It is perhaps partly for this reason that, learning from the mistakes of others, the English forms of amalgamation are superior to those of Europe and America.

CARTELS AND TRUSTS.

There are many different forms of combination—conventions, cartels, syndicates, trusts, pools, rings and corners—and it is sometimes a matter of difficulty to distinguish between the different forms. I think the easiest way to classify them is to regard all as belonging to one or other of two distinct types, and to group them according as they more nearly approximate to the cartel form, or to that of the trust. Even here there is a difficulty, because we cannot apply a fixed

meaning to either of these two terms, and sometimes they are used as if they were synonymous. The chief distinction between the two forms of amalgamation is the degree of independence retained by the individual unit forming the combine. In the cartel the separate units continue to exist as separate enterprises, certain functions only being centralised. But in the trust the individual units are assimilated in the new entity, individual independence disappears, and all functions are exercised by the central body, even though the original units may continue to exist as separate bodies in the legal sense. We shall best see the other broad distinctions between these types if we consider them separately.

A cartel consists usually of the combination of enterprises in the same branch of manufactures or of commerce. The different independent undertakings combine more or less voluntarily without yielding their rights in order that they may be maintained on a profit earning basis. Periods of depression or bad trade are most favourable for the formation of cartels, and hence they have been called the "children of distress." A firm does not like to surrender even a part of its independence if it can be avoided. But unrestricted competition, "cut-throat" prices, unregulated production, and the flooding of the market with unsaleable goods, may well lead to the ruin of the competing businesses. To remedy such a state of affairs a cartel is formed, under which the competing enterprises transfer to the central body certain of their functions, such as the fixing of the sale price, the determination of the quantity of output of the individual firms, &c.

Obviously the nature and power of the cartel depend on the extent of the transferred functions. You may have a simple "condition" cartel based on an agreement among the members not to grant preferential terms to consumers in regard to discounts, time of payment, &c., or you may have a "price" cartel which, in addition, fixes the sale prices for all members. Cartels for "protection of customers" are common among transport concerns, who agree to restrict their operations to certain districts. Some cartels limit or restrict the quantity of output of the individual members, while others not only do this but entrust the sale of the products to a centralised headquarters. With the exception of the last mentioned form, which involves considerable capital expenditure and elaborate selling organisation, cartels are usually formed for short periods only. They are not stable in character, and during their continuance are continually threatened with disruption from internal and external sources. Each member remains in the cartel only so long as it offers advantages to him—when it ceases to do so he will cut loose at the first opportunity. Each member is, of course, bound by the conditions of the cartel, which has power to inflict penalties for their breach. But the cartel may find it difficult to inflict such penalties, and, in any case, it is practically powerless against secret infraction of the conditions by members. The greater the number of functions taken over by the cartel the more will the members feel cramped in their individual development, and especially so where the cartel arranges the quantity of output. The more efficient and enterprising members will demand better terms, and if this is refused dissatisfied members may bring about the dissolution of the cartel.

And then there are the outsiders. It is obvious that the strength of the cartel depends largely on the proportion of firms who participate to those who do not. The greater the number of enterprises involved, and the more they vary in size, capital power and equipment, the more difficult it is to form a cartel. There are always firms which will refuse to come in—either for economic reasons or from sheer obstinacy. In some cases the cartel tries to render the

position of such "outsiders" untenable by cutting prices in their circle of customers. But however successful they may be in this respect the cartel has rarely the power to prevent new "promotions," especially when prices have been forced to a high level. Nor even when protected by customs duties can the cartel always prevent foreign competition: so that outside competition is always a source of annoyance and danger to the cartel.

The trust differs widely from the cartel in its origin, aim and structure. The spirit of enterprise which has converted the small business into a larger one, and finally into a gigantic concern, does not end there. It is not merely the question of money making: there is the pride of the organiser in the development of his personal power and reputation, the pleasure of seeing ideas realised in practice, the triumph of new achievements which have done much towards the promotion of trusts.

The trust aims at uniting the largest possible number of firms into one complete unit, and thus increasing the production and sale of goods, while lowering the cost of production. It tries to protect the market against over production, by adjusting output to demand, while at the same time regulating the price.

In most combinations of the trust type there is seen at an early stage the development of the desire for self-sufficiency. It is for this reason that a trust often combines different branches of industry, such as manufacture, trade, transport and insurance. A trust first expands horizontally, taking in competitive enterprises, and then it grows in height and breadth. It tries to free itself from dependence on the producers of raw materials, or on the sellers of finished products. Thus you may find a rolling mill acquire the steel works which formerly supplied it with raw materials. It may then acquire its own blast furnaces, and further free itself from the suppliers of coal and ore by purchasing coal mines, coke ovens and iron mines. In the other direction the trust may try to become independent in regard to transport by building its own ships. In the case of the American Oil Trust, not only did the trust buy up railway shares, so as to gain control of the railway, but it had its oil carried at half the rate charged to its competitors, and the railway even agreed to pay them the excess charged to others and furnish them with details as to quantities sent.

The trust is a higher form of combination than the cartel, because in the trust the constituent firms lose their independence. All the members are linked up into one indissoluble entity. There can be no infidelity among the members, no breach of contract, no secret competition. Competition is directed against outsiders, and becomes very effective owing to the advantage of large capital, better organisation and large scale production possessed by the trust.

In comparing these two forms of combination, the cartel and the trust, we can look at them from various aspects. From the popular point of view, the cartel is usually regarded more favourably than the trust, because it maintains the independence of the units composing it. From the economic point of view, however, the case is different. The trust aims at securing all the economies of large scale production. It results in unification of effort, centralisation of control, more perfect organisation, greater efficiency, and lower production costs. The cartel, on the other hand, gains none of these advantages, as the individual firms work independently on the same scale as before. It aims mainly at the abolition of outside competition and the fixing of an artificial level of prices for the preservation of weak firms, and in this way it is a hindrance to industry and progress. From the consumer's point of view, both forms are to be feared. The cartel exists for the purpose of keeping prices

above the normal. The trust is in a position to reduce prices, but it may not do so. The tendency in both is to increase the profits of the entrepreneur and the return to capital at the expense of the consumer.

VERTICAL AND HORIZONTAL AMALGAMATIONS.

Apart altogether from the type of organisation in amalgamations it is necessary here to consider amalgamations in respect to the direction of expansion. Vertical and horizontal amalgamations have widely different effects upon production and upon the community.

We may regard any particular manufacturing industry as consisting of a series of stages of which the basis is the provision of the raw material. Above this is a series of processes until we reach the finished product. After this comes the marketing which in itself usually has many stages before the product reaches the ultimate consumer. Now when a business expands into a stage higher or lower than that with which it was originally concerned, its expansion is said to be vertical. When, for example, a printing business takes over paper mills and manufactures its own paper, or when it sets up a publishing department to absorb its products you have vertical expansion. The upper stages of such a "mixed" works do not have to worry about their supplies of material, which largely consists of the partly finished products of the lower stages, nor do the lower stages have to trouble about a market for their products.

The group of industries which serves best to illustrate the working of a vertical amalgamation is the iron and steel industries. At the present time, indeed, we hear rumours that proposals are being considered involving the complete re-organisation of the British iron and steel industries on these lines. In this group of industries we have iron ore, coal and limestone at the raw material stage, pig-iron and steel as intermediate products, while the range of finished articles is very wide, including machinery of all kinds, locomotives, steamships, guns, &c. Iron and coal mines are large users of the machinery and rails which come from the latter stages; the intermediate stages, such as smelting furnaces, are large consumers of machinery, while also they receive their raw material from the mines and pass on their products to the mills.

A vertical amalgamation in this group of industries can effect great economies in production. Production can be controlled at each stage and the output of the lower stages can be adjusted to the requirements of the upper stages. Scarcely anything requires to be bought except for the lowest stage; scarcely anything to be marketed except from the highest stages. An important feature is that the higher stages can rely on the quality of the material supplied to them from lower stages and its suitability to their requirements.

In furnaces and rolling mills the materials to be handled are so bulky that all operations must be performed mechanically. By a system of hydraulic or electric cranes on internal railways masses of metal can be moved quickly and easily from department to department. And just here comes in an important economy: In the iron and steel industry fuel is an important item. Under centralised control one heating of the metal can replace several, and the saving in cost is very considerable. The molten metal can be passed straight from the blast furnace to the converter and thence to the mills to be rolled into plates, rails, girders, &c. The utilisation of waste products affords many economies. The waste gases of the furnaces heat and pump air for their own use, and have still a surplus energy which can be utilised for other branches. Employment is steady, and it is often possible to shift temporarily labour from one stage of work to another. The central authority is in a position to divert surplus stocks to

areas where work is slack, or relieve a branch which is overburdened by transferring work to one not so busy. The United States Steel Corporation, which has several sets of "mixed" works, obtains economies of transport and marketing in this way. Orders received are sent to the works that can best handle it, taking into account the suitability of its plant, the amount of work it has on hand and its geographical position.

I think I have said enough to show that the vertical form of amalgamation has great advantages for the producer in lowering the cost of production. The consumer also gains in that competition in the finished article is rendered keener between such amalgamations, and prices are lowered. A reduction in selling price means an increase in demand. Where the demand is elastic, consequently, there will be an increased demand for labour, and in any case employment will be steadier.

With regard to the horizontal form of amalgamation, the problem is more complicated. The object of such a combination is either to secure the economies resulting from large scale production and so reducing production costs, or it is to gain some form of control over the selling price of their product. Now from a reduced cost of production, both producer and consumer should benefit. Whether the consumer benefits by a controlled selling price depends entirely upon the policy of those exercising the control. Thus, while horizontal amalgamations possess great possibilities of benefit to the public, they also are a source of danger. The danger lies in the tendency towards monopoly which exists in such amalgamations. Under modern business conditions a perfect monopoly is practically impossible, but a measure of control approaching monopoly is possible. It must not be supposed, however, that such a monopoly will arbitrarily put up prices. If prices are very high sales will be small and the total profits also small. It will probably pay better to lower the price and increase the sales. The monopolist, in fact, will try to adjust the price so as to obtain not the highest possible profit per article but the highest total profit on all goods sold.

Nor do I want you to suppose that monopolies, as such, are harmful. In many cases monopolies are in the best interests of the consumer, as in the case of municipal supply services. The monopolist, again, generally takes a pride in sustaining the superior quality of his products, while one of the most striking results of keen competition has been the wholesale adulteration of goods. Free competition does not even guarantee cheapness, but in some cases actually raises the cost of production, as happens when there are too many producers in an industry. Even, however, if our combine does raise prices, it cannot do so unchecked. If the price goes too high substitutes will appear on the market, so that the selling price of the monopolised article is regulated by the price at which the most efficient substitute can be profitably sold. That this is so is shown in practice by the strenuous efforts made by monopolists to obtain control of the substitutes. We know that our railway companies got control of the canals because they offered a cheaper method of transport, while the American Oil Trust tried to obtain control of the gas and electricity concerns.

AMALGAMATION IN BRITISH INDUSTRIES.

The tendency towards horizontal rather than towards vertical amalgamation has been apparent in most British industries. The recent huge combine of British railways will be fresh in your memories as a striking example of the horizontal form of amalgamation. We are far yet from receiving all the benefits promised to us under that reorganisation, but we must make allowances for the period of transition. We may, I think, be certain that once the reorganisation

is complete passenger conveniences and facilities will be improved, and we may hope for a reduction in freight rates once the economies of centralisation are experienced.

In the banking world also, in recent years, there has been a series of amalgamations of the horizontal form. This is the inevitable outcome of a tendency which has been evidenced for the past sixty years. As a result of these combines the banking business of the country is now practically controlled by five banks. Fear was expressed at the time that these amalgamations would result in the exploitation of the public by virtue of a practical monopoly. There is no evidence that such has been or will be the case. On the other hand it is clearly evident that in times of crisis strong united financial action is more easily decided on and enforced when the control of banking is in the hands of a few banks than if there were many.

In the textile industries nearly all the great amalgamations have grown out of "understandings" between the firms concerned. These have developed into federations, and have ended in complete fusion. This general tendency is specially strong in such industries as wool-combing, bleaching, dyeing and finishing. Each of the main branches carry on their business separately, and the fusions which have taken place are horizontal and not vertical. The early history of the Calico Printers' Association showed, however, that mere fusion in the absence of thorough organisation and strong central control may only result in disaster. The most striking success in this field is that of Messrs. J. P. Coats & Co. By a series of amalgamations spread over several years the firm has secured a very considerable control over the production and sale of sewing cotton. From the shareholders' point of view the result is exceedingly satisfactory. About one-half of its share capital consists of preferred shares which receive a dividend of 20 per cent. Its ordinary shares commonly receive 30 per cent. From the consumers' point of view it is generally admitted that the public are supplied with a good article at a reasonable price and a better article than if it were produced by a number of small firms. Macrosty, in his book "The Trust Movement in British Industry," shows that the selling price is actually less, since the amalgamation, than the average price for the twenty-five years previous, in spite of the fact that wages and raw materials now cost more.

From a very early date in the coal mining industry, combinations of coalowners, shipowners and traders were constantly taking place. The Newcastle Vend was formed in or before 1771. This combine is noticeable from the fact that it anticipated by more than a century the fundamental ideas of the German cartels and syndicates. The importance and power of the Vend was due to the fact that Newcastle had good access to the sea for the products of very rich coal mines, and was thus in a position to meet the great and growing demand for coal in London. The amount of coal offered at Newcastle each month for sale in London was decided by the central committee. Each colliery had for its quota a proportionate amount of this total. Each colliery fixed its own level of prices for the year at Newcastle as it chose, but once fixed the prices could not be altered during the year. Each shipper bought in Newcastle from whatever colliery he pleased and fixed his own prices in London. Several commissions of inquiry investigated the affairs of the Vend, but concluded that the best corrective to its evils would be found in the increasing competition of other coal fields, and this opinion was later justified by facts.

A proposal was made in 1897 by Sir George Eliot that a huge combine should be formed to acquire all British coal mines except those owned by iron-masters. He emphasised

the large wastage which then, as now, was involved in the competitive marketing of coal and in leaving banks of coal unworked near adjacent mines. A high limit was fixed, up to which profits could be divided without the consent of the Board of Trade. The plan had a very favourable reception, but was finally abandoned owing to difficulties in detail. There are, of course, amalgamations in the coal industry at present, such as the Cambrian Coal Combine in South Wales, where steam coal has a high monopoly value for naval use. The conditions in the coal mining industry are so unsettled that it would be unwise to prophesy, but given a period of peace and freedom from labour troubles it is possible that the industry might yet work out its own salvation.

The one industry in which the tendency to amalgamate has not appeared to any great extent is that of agriculture. The common cultivation and management of farms presents serious difficulties, and can only be carried out for farms that are contiguous. An important factor is the mental attitude of the farming class. Conservative in habits and methods, they are also prone to jealousy, so that close neighbourhood is more likely to breed law suits than to develop amalgamations. It seems probable that any developments in this respect will lie along the lines of co-operation rather than that of fusion. Much has been done in this direction already. Our co-operative dairies have been most successful, and there is room for similar activities in the purchase of machinery and plants, and fertilisers in large quantities. Where amalgamation is required, however, more than in anything else is in the disposal of the produce. The large number of middlemen results in the farmer getting too low a price, while the cost to the consumer is relatively far too high. Some of the agricultural syndicates in France, of which there were about 3,000 before the war, have successfully experimented in the joint marketing of wine, vegetables and fruit; and a combination of dairy farmers for the joint disposal of their products in the London area has also been very successful. "Selling associations," with their centralised control, should eliminate much of the waste of the present system of marketing, and give the farmer a better return for his labour, while at the same time benefiting the consumer by lower prices.

LIMITS TO EXPANSION.

I commenced my lecture this evening by saying that the most marked characteristic of modern industry and commerce was the constantly increasing size of the business unit. If this evolution should continue in the future what will be the result? It will inevitably involve the gradual disappearance of all who carry on a business or industry for themselves—the small shopkeeper, the small manufacturer, the small merchant. These persons, now independent producers, would become wage-earners, employees of immense enterprises capitalised in millions of pounds.

Such a prospect is not gratifying to the ordinary individual, but it is pleasing to some economists and to all collectivist socialists. To them the economic evolution which is taking place in our time appears to involve three successive stages:—

- (a) Competition among small producers.
- (b) Monopoly control of large producers.
- (c) Regulation by the State.

The collectivists in particular declare that this evolution is inevitable and that efforts to hinder it will be of no avail. Every change by which small businesses are replaced by large concerns, and by which individual production gives place to large-scale collective production, is regarded as a step forward on the road to collectivism. To them small scale production and individual enterprise are things to be despised. Listen to the opinion of Karl Marx: "This system excludes concentration, co-operation on a large scale, the extensive use

of machinery, the wise rule of man over nature, agreement and unity in the purposes, the means and the efforts of collective activity. It is compatible only with a rudimentary state of production and society. To perpetuate such a system of isolated production would be to decree mediocrity in all things."

It is just as impossible for us to agree with this condemnation as it is to admit that the suggested evolution is inevitable. If state control of industry and commerce should come we shall be swamped by bureaucracy and smothered by taxation. The heavy hand of government tends to slacken progress in whatever matter it touches. The incentive to strive, to plan, to experiment, to take risks will disappear. The worker will find that the "greater freedom" towards which he is striving has culminated in the conscription of labour, and harassed humanity will be glad to revert to the system of private enterprise and commence the circle all over again.

Large scale enterprises cannot go on expanding indefinitely. In their development a point is reached sooner or later where the economies of large scale production are counterbalanced or overcome by wastage, leakage and expenses. The business or industrial genius who gave them birth is replaced by a less efficient successor, and development ceases or is replaced by retrogression.

On the other hand the small business is not so impotent or out of date as it is supposed to be. The very existence of the larger business offers opportunities for the smaller. In production, where the earlier stages require large capital and much machinery, the latter stages may be mainly done by hand requiring the attention that is best given by a small employer. The small builder buys ready-made doors and window frames; the small cutler buys his material from large steel firms; the small cycle shop builds excellent bicycles from machine made standardised components; and in many other directions the large business is enlarging the scope for the initiative and for the watchful care about details in which the small producer excels.

The small producer and the small trader is constantly threatened with extinction by the larger firms. He has been driven from some branches of industry, yet he survives. And not only so, but the number of small businesses is constantly growing. It is a good thing for the community that this is so, for the small business is the best educator for the initiative and versatility which are the chief sources of industrial progress.

INCORPORATED ACCOUNTANTS' GOLFING SOCIETY.

At the invitation of Mr. Henry Morgan and Mr. F. W. E. Morgan, members of the Incorporated Accountants' Golfing Society met at Edgware Golf Club for a competition on October 14th.

The following members participated: Mr. F. W. E. Morgan, Mr. G. S. Pitt, Mr. W. H. Payne, Mr. A. J. H. Shay, Mr. W. McIntosh Whyte, Mr. Thomas Keens, Mr. A. T. Keens, Mr. P. F. Keens, Mr. W. A. J. Bussey, Mr. B. de V. Hardcastle, Mr. H. J. Sier, Mr. A. A. Rattray.

The Society's Challenge Cup, together with the Captain's prize, was won by Mr. H. J. Sier (85-10=75), and Mr. B. de V. Hardcastle (81-4=77) was the runner up.

The Golfing Society desire to express their appreciation of the hospitality of Mr. Henry Morgan and Mr. F. W. E. Morgan on this occasion.

Mr. F. Woolley, F.S.A.A., of Messrs. Woolley & Waldron, Incorporated Accountants, Southampton, has been placed on the Commission of the Peace for the County Borough of Southampton.

Institute of Chartered Accountants

PRESIDENTIAL ADDRESS by Sir ARTHUR WHINNEY, K.B.E., F.C.A.

It was in the year 1886 that the Council of the Institute of Chartered Accountants decided that the objects for which the Institute was founded would be developed by the holding of provincial meetings from time to time, the intention being that by such meetings members would become better acquainted with each other, and that they would be afforded the opportunity of discussing subjects of mutual and professional interest.

The first provincial meeting took place in that year at Manchester, under the presidency of my father, who at that time was President of the Institute.

In concluding his address, he expressed the hope that the first provincial meeting might be the forerunner of others, and to use his words, "may grow in interest and success as time runs on, and may become fully worthy of the Institute to which we have the honour to belong."

The meeting then held has been followed by others at intervals of three or four years, except during the war period; the last provincial meeting was held in Nottingham in 1923.

This year the Council has accepted the invitation of the Bristol society, with the consequence that we are gathered together in this council chamber with the object and in the hope of furthering by our deliberations the interests of the Institute, and I may conclude from the number of those attending the meeting that the usefulness of these gatherings is fully recognised and appreciated by our members. This is the first meeting which has been held in Bristol, and our thanks are due to the Bristol society, to its President (Mr. Harris) and to Mr. Cornwell (Hon. Secretary and Treasurer) for the great efforts they have made to ensure its success.

As I have pointed out, my father expressed the hope that these gatherings "might grow in interest and become fully worthy of the Institute." A perusal of the published proceedings of successive autumnal meetings establishes the fact that his hope has been amply fulfilled. Successive Presidents have called attention, in their addresses, to the salient features of the work engaging the attention of the profession, and it is noteworthy that as time has passed the character of our professional work has extended both in scope and importance. The nature of our responsibilities has increased, and the ambit of our work now extends far beyond the bounds which even the most optimistic could possibly have forecasted in those early days of development. By a steady advance along the paths of progress, the profession has reached a stage at which its value and utility is recognised by those who but a short time since were ignorant of our existence.

The call of the country in the time of war found us prepared to render service of great value to the State, and looking back upon those dark and anxious days we can dwell with pride upon the fact that in us, as a profession, the Government found a body of men tried by experience and possessing knowledge useful to our country in its time of need.

It is a matter of great satisfaction that during the years succeeding the war and down to the present time many of our members continue to be called upon to act, in an advisory capacity, upon Government committees and inquiries, and to render service to the industrial, commercial and financial interests of the country, thus showing that the work of the Chartered Accountant continues to be of recognised value, whether it be to the State or to the individual.

It has come to be recognised that a Chartered Accountant, by his training, has unique opportunities of acquiring not only great skill in dealing with figures, but that rare quality of "business sense" which conduces to a poise of mind so essential in enabling him to deal fairly with the many intricate questions which centre round business and finance, whether national or commercial. The discharge of his manifold duties calls for sound and impartial judgment, tact in expression and fearlessness in the face of criticism. That he possesses these qualities is largely due to the high ideals of his professional duties which he holds; to the recognition that he is a member of a body incorporated by Royal Charter, which aims at the elevation of the profession and the promotion of its efficiency and usefulness, and which, by compelling the observance of strict rules of conduct as a condition of membership, sets up a high standard of professional and general education and knowledge.

THE POSITION OF INDUSTRY.

We meet in a time of great industrial distress. The coal industry, upon which the wealth and prosperity of the nation so largely depends, has been the subject of a dispute which has caused a stoppage for over five months. During the struggle the most anxious exertions have been put forth by the Government in order to extricate the industry from the difficulties into which the dispute has thrown it. When peace comes it will not be by negotiation or willing agreement, but by the process of exhaustion. Tremendous loss is accruing day by day, not only to the miners and coalowners themselves, but to the trade of the country, and especially to those industries dependent upon a large supply of coal, such as pig-iron, iron and steel, tinplate and pottery manufacture, engineering and shipbuilding.

The loss is stupendous and cannot be estimated by any figures which can be said to be reliable. Inference can, however, be drawn from the following facts, namely:—

The export trade of the country has fallen away since the strike began in May by no less than £46,000,000 as compared with the corresponding period of last year.

Official returns of the railways show that in the first half of 1926 receipts for passenger and freight traffic were approximately £11,500,000 less than the first half of 1925. What the loss of revenue is to date remains a matter of conjecture, but whatever figure, it must be colossal.

The unemployed workers now number over 1,660,000, or over 14.5 per cent. of the total insured workpeople, and these figures are exclusive of those normally engaged in the coal industry.

Since January and up to the end of July no fewer than 223 industrial disputes, involving stoppages of work, have arisen; the number of workpeople involved being 2,736,000, and the aggregate duration of loss in working days no less than 83,244,000.

In face of such facts it is not surprising that many observers take a pessimistic view of the future of this country. If Britain were the workshop of the world, the world would have to wait until trade disputes are settled, but however true this may have been in the past, no one will delude himself into the belief that this is the case to-day. Competition from abroad is acute, and cuts deeply into the roots of our prosperity. Inability to satisfy demand causes customers to look elsewhere where more stable conditions exist, and the "will-to-work" stimulates the foreigner to take advantage of our misfortunes. If markets are once lost, who shall say when, if ever, they will be recovered? Certainly a change will have to come over the temper of both employers and employed, or the consequences will be irreparable. Struggling

as the country is under the burden of crushing taxation, it is in no condition to suffer a disaster of such appalling magnitude as the coal stoppage. The times call for a long and steady pull on the rope and not for squabbles and internecine strife. The "will-to-work" hard and continuously under stable conditions can alone save us from a position which challenges our very existence.

When the coal strike is over, let us rejoice that the night of sorrow and distress has ended in the dawn of a new day, but let us beware lest we imagine that there is hope for the future unless we are able to turn to profit the lessons which the conflict has taught. We are too prone as a nation to forget our experiences as soon as the danger is past and to rely on muddling through somehow. Strikes are by no means a thing of the past. They may become so, but only if we can set up a state of affairs which will provide an alternative way of satisfying the claims and instincts of employer and employed, but this will not be the case if we simply go back to work deploring the consequences but ignoring their lessons. How indeed can we find a safeguard against the evil? What are the signs and portents? What of the times in which we live?

To get a fair view we must step back a little. If we are too near the picture, we lose its perspective. Gone are the days when it was said that "if a man will not work neither shall he eat"; gone are the days when the employer could engage his workmen upon his own terms—"Go ye also into the vineyard and whatsoever is right, that shall ye receive." The Unemployment Act looks after the one, the trade unions protect the other. For good or ill, trade unionism has come to stay. The worker has long established the right to combine in order to obtain better terms both as regards wages and conditions, and with it there follows the necessary corollary of his right to strike. Just as the worker has learned the advantages of combination, so too has the employer, so that there has grown up in this country two great federated classes, the employer and the employed, the latter resting upon the basis of trade unionism.

In order to understand the position let us consider very briefly the stages through which the attempt to establish industrial peace has passed during the last thirty years.

Towards the end of the nineteenth century there sprang into existence organisations of employers and employed for dealing with trade disputes by the principle of conciliation. In 1891 a Royal Commission was appointed, and in 1896 the Conciliation Act was passed. This enabled the Board of Trade to take action to settle disputes and to appoint conciliators or arbitrators on the request of the parties. In 1908 Courts of Arbitration were set up and panels of arbitrators constituted. These measures, however, were not sufficient to overcome the difficulties which continued to arise between employers and employed, and in 1911 there were strikes of seamen, dockers and railwaymen, followed in 1912 by an extensive strike in the coal mining industry.

In order to strengthen the then existing machinery, an Industrial Council was established in 1911, the Government's desire being that trade disputes should be settled not by Government interference but by fostering voluntary methods amongst employers and employed, and this, it was thought, an industrial council would do. Then came the war, when the normal relationship between employer and employed was, for the time being, ended. In 1916 it was recognised that the return to normal conditions after the war might involve difficulties between employers and employed, and in that year a committee, known as the Whitley Committee, was appointed by the Government to study the question and to report. The Committee issued five reports. The first recommended the establishment of "an organisation representative

of employers and workpeople to have as its object the regular consideration of matters affecting the progress and well-being of the trade from the point of view of those engaged in it," and suggested as a means to that end the formation of joint industrial councils upon which representatives of the workers and of the employers should meet and discuss matters affecting the industry, and that in the less well organised trades the existing Trade Boards, which had been set up some time previously, should continue to function. The Committee were opposed to any principle of compulsory arbitration, but were in favour of the settlement of disputes by voluntary agreement.

The recommendations of this Committee gave rise to the Industrial Courts Act, 1919.

Part (1) of this Act gives power for the Minister of Labour, with the consent of the parties, to refer a dispute to this Court for inquiry and decision. Such decision has not, however, the force of law.

Part (2) of the same Act confers upon the Minister of Labour somewhat wider powers. If he is of opinion that the subject of a dispute is of such a nature that the interests of the public are involved, the Minister may himself inquire into the causes and circumstances of the dispute, and may refer such matters to a Court of Inquiry, specially to be appointed for the purpose.

Such Courts of Inquiry have been held as follows:—

In 1920—Dock workers, coal tippers and trimmers, electrical trades dispute.

1921—National tramways dispute.

1922—Engineering trades dispute.

1923—Coal tippers and trimmers dispute.

1924—Docks dispute and railway shopmen. Stoppage of London tramway and omnibus services. Dispute threatening stoppage of work at the coal exporting ports of Great Britain. Building industry dispute. Covent Garden dispute, and the threatened stoppage of work at the ports and elsewhere.

1925—Threatened stoppage in the building industry in connection with "Weir" steel houses.

Fuller information can be obtained from a "Survey of Industrial Relations," recently published by the Committee on Industry and Trade, to be obtained from H.M. Stationery Office.

From this source I have ascertained that since the Industrial Courts Act was passed until June 30th, 1925, 3,181 cases have been dealt with by the Industrial Court or by Arbitration or Conciliation Settlement.

These figures illustrate the high importance to be attached to the working of the machinery which has so wisely been set up to regulate disputes between employers and employed. When it is remembered that only those disputes which have been brought officially to the knowledge of the Minister of Labour are included in the figure above quoted, and that no account is taken of the hundreds, if not thousands, of disputes settled by such machinery but which do not come officially to his knowledge, it will be recognised that much has already been accomplished in the cause of industrial peace.

A steady process of evolution has been at work, along the lines of permitting employers and employed to settle their disputes without the aid of Government interference. Unfortunately, the establishment of conciliators, arbitrators, industrial courts, and workers' councils, and the fostering care of the Minister of Labour are not, however, enough to prevent the occurrence of strikes, involving stoppages of work. Neither employers nor workpeople seem, as yet, able to appreciate the deplorable consequences which arise from curtailment of output which strikes cause.

Is it too much to hope that with a spread of the knowledge of economic facts and mutual confidence, aided by the exercise of common sense, employers and workpeople will

be led to recognise that they are in fact bound together by mutual ties of self interest, and that by invoking the use of the machinery of conciliation, strikes may yet become a thing of the past, and that the instinct of self preservation may triumph over the selfish claims of those who, be they employers or employed, are in reality partners in industry upon the success of which their very existence depends?

How far removed from this is the spirit which has actuated those engaged in the coal dispute. Only the other day Mr. A. J. Cook, Secretary of the Miners' Federation, is reported, in the *Times*, to have said to a meeting of workmen:—"We are twenty weeks nearer settlement, but apart from the time, we are no nearer settlement than on the first day. Why? Because capitalism must be fed. It must have its sacrifice; its sacrifice is the miner's child." And he stated that the coalowners were saying: "We are going deliberately to hold up the country until our terms can be imposed. The power we hold is not the power of reason, but of might. Women and children must be fought, and it is upon the empty stomachs of women and children that it will be fought."

Such remarks are lamentable, coming as they did from one who was leading the miners in a dispute which turns mainly upon economic laws governing the cost of production.

They show that the spirit is wrong, and are born of ignorance. What hope is there unless the workers themselves understand that such sentiments can but lead them to further embroilment in class war and class hatred? So long as there is abroad a spirit of antagonism, hatred and distrust, so long will discontent and suffering stretch a devastating hand over the land, and bring this old country, with its free institutions and glorious history, to the brink of ruin.

It is no use looking to Governments to pull us through. State interference in industrial disputes is recognised as being repugnant to the best interests of the community. A political atmosphere is not the best in which to settle an economic dispute. It is the employers and the employed who must help themselves. The machinery is there. A full knowledge of its use and its capacity is essential to peace, and industrial peace is the greatest national need at the present time. Trade unionism in its working has rendered immense service to the cause of the worker. Unfortunately, it has overstepped its legitimate bounds. The coming inquiry by the Government may assist to bring it back to a greater usefulness, and set it free to develop its great purpose in the best interests of the worker. Broadly speaking, trade unionism has justified itself when led, as it is in many instances, by men of probity and sound judgment, by leaders who, while loyal to those whom they represent, have also at heart the best interests of the nation of which they are citizens. Nevertheless, trade unionism will continue to play its part in raising the condition of the worker only so long as it pays due regard to economic laws.

It is clear from what I have said that a very great advance has been made during the last thirty years towards the establishment of Industrial Peace by conciliation between employers and employed. Unfortunately, it is lamentably apparent that the machinery set up does not function effectively. If it did we should not be presented with the spectacle of a prolonged struggle in the coal industry, or with the rough experience of a general strike. Therefore, the question is: can anything be done to tighten up the machinery, to improve its running, to promote its efficiency, or to reinforce it by additional plant?

No sane person can suppose that workmen strike for the fun of the thing, nor that they would do so if they could get their demands in any way which does not deprive them even temporarily of their means of livelihood. Neither can anyone hold the view that the demands of labour are always reasonable, or can properly be sustained in the face of economic

facts. On the other hand, can anyone say that employers are always ready to meet the demands of labour in a fair spirit?

First, then, can we look to the Government to do more than is done at present towards the settlement of industrial disputes by direct intervention?

I have no hesitation in saying that except for the purpose of affording protection to the community Government interference is bad and should only be invoked in cases which challenge the national interest and even then only in the last resort. Moreover, it has a tendency to prolong strife. The knowledge that the Government is anxious for peace encourages one side or the other to continue the struggle, in the hope that Government influence will cause the other side to give way. Moreover, interference in industrial disputes is an impediment to the Government and takes up the time of Ministers, which has to be diverted from other matters. A political atmosphere is not one in which industrial disputes can best be adjusted. Political capital ought not to be manufactured out of commercial unrest. Is it, therefore, possible to erect a stronger bulwark than is at present provided, non-political in character, to intervene between employer and employed before Government interference is necessary? Can there be established in this country a body to which employers and employed may appeal in all disputes likely to involve a stoppage of work, a sort of final court, whose decisions shall be binding and have the force of law? A court before which either employers or employed can bring their disputes much in the same way as a man who has a difference with his neighbour has the right of bringing his case before a Court of Law. Such a court would be complementary to the machinery which exists for dealing with disputes in their early stages, and would only operate when such means have failed to compose the difference.

It may be that the existing Industrial Court, with enlarged powers, would meet the case. If not, recourse might be had to the professional classes who are not engaged in trade, with power to obtain technical help from those versed in trading conditions, perhaps presided over by a Judge of the High Court.

If there could be established a tribunal to which either employers or employed can apply whose decisions would be binding on both, a court which has power to administer oaths, summon witnesses, examine by means of experts books of account and documents and award costs, then I venture to suggest that Government interference would only be necessary in cases in which either the employers or the employed refuse to act upon the findings of such a court, and then only in cases in which the national interest is involved. But surely the love of law and order which is known throughout the whole civilised world to be a national characteristic, the knowledge that the decisions of the court are the outcome of an impartial consideration of the facts, the fear of the misery involved in a stoppage of work and of injury to trade will all be elements which will operate in favour of an appeal to such a tribunal, and the occasion for Government interference in industrial disputes will practically disappear. But if, unhappily, it does become necessary, surely it should be an axiom of Parliament that just as in a case of national danger from foreign foe party differences are sunk, so in any case of national emergency arising from internecine strife, all parties will agree that political capital shall not be made out of such a calamity.

Take another point. The various existing federations of employers are not composed of all the firms carrying on any particular trade, with a consequence that, in an emergency, the federation cannot claim to speak on behalf of an industry as a whole. This is weak. Can it be provided that employers must perforce belong to a federation authorised to represent the trade as a condition precedent to carrying on their business?

It is a very big question, and the consequences are very far-reaching. Under such conditions it might well be that all workers in an industry should equally be forced into a union, and this immediately opens up the question of supervision and regulation not only of the federations but of the unions.

Again, workers are not free to exercise their votes independently of pressure of a severely coercive kind. Before much else can be done, the existing conditions under which the trade unions function, their methods, and, above all, their influence in so far as it fetters the free decision of the workman or places a restriction on output, require overhauling. Picketing and such like methods must be looked into.

It must not be imagined that in calling attention to these questions I have any ready-made specific which is suitable for application to the present condition of affairs. I am sure that the use of an anodyne would be worthless. Rather let the patient suffer than suppress the pain and so prevent an accurate diagnosis. It is clear, however, that something must be done.

Already the Government have decided to examine into the working of certain practices of trade unionism, but I suggest an inquiry larger and wider in its scope, one which covers the difficulties of the whole industrial position. I would like to see an examination into the causes of industrial unrest and of the machinery for conciliation. If such is not sufficient to cope with the distractions of present-day conditions, let the inquiry suggest how it should be reinforced. I have suggested the establishment of an Industrial Court of Appeal with extensive powers. Let the inquiry say if this is wise. The Government alone can order the inquiry, but I claim that the condition of the country is so deplorable that it calls for the exercise of every means of finding out what is wrong, and then of boldly taking the course best calculated to put things right. The price of industrial peace may be great and may require that many ideas which have hitherto been held sacrosanct must be abandoned. Vital as they may appear, the need for industrial peace transcends them all. Whilst unrest continues to exercise the sinister sway which it does in the life of the community employers and employed have neither the will nor the incentive to concentrate upon their jobs, with the consequence that costs are high and production low.

If as the result of the inquiry I have suggested there is set up a body to act as a final court, whose decisions in industrial disputes will have the force of law, if bodies of employers and employed can be so welded as to form councils representative of each distinct industry, if the operations of trade unions can be divested of those things which are an impediment to freedom, then, in my opinion, a big step will have been taken towards the establishment of that sense of security without which the future prosperity of our country cannot be regarded otherwise than with grave apprehension.

It behoves us as a great profession, whose work calls us into all sorts of positions, often where we can see down both sides of the hedge, to concern ourselves with a subject which so vitally affects the national interest. Much can be done by us in spreading a knowledge of sound economic principles, the disregard of which has brought into existence so many cherished illusions. Let us see to it that a high sense of duty be the mainspring of any efforts which either as citizens or as Chartered Accountants we can put forth to promote a state of industrial stability and immunity from strife, for upon these two factors the future prosperity of our nation so largely depends.

Knowledge is the beacon light whose beams will dispel the gloom of ignorance and distrust.

"Ignorance is the curse of God—

Knowledge, the wing wherewith we fly to Heaven."

MATTERS OF DOMESTIC INTEREST.

Turning now to matters of domestic interest, I desire to call attention to the ever increasing number of bodies not related to our Institute whose activities tend to confuse the public into the belief that such bodies are of the same status as our own. I am not, of course, referring to the Scottish or Irish Chartered Accountants, or the Incorporated Society of Accountants and Auditors. Although we are not related to these bodies, we recognise that their professional excellence enables us to work in harmony with them. I refer to other bodies more recently established in the United Kingdom who bear no relation to us professionally or otherwise. I am not saying that such bodies may not perform a useful function in the sphere in which they live and move and have their being, but the public should understand that there is a difference between them and ourselves, and that high sounding names or the use of many letters of the alphabet do not and never can make such bodies akin to our own. The Council of the Institute on more than one occasion has had to fight out this question, and has endeavoured to impress upon Parliament that in undertakings in which public money is to be employed the audit of accounts should, in the public interest, be entrusted to members of one of the Chartered Societies or of the Incorporated Society.

So far, success has in the main attended these efforts, but the ever increasing activities of those other bodies to which I have referred lead me to direct attention to the difference which lies between us. The Council will continue to remain on the watch so as to prevent as far as possible confusion arising in the minds of the Government or of the public as to the identity of our body.

If the fusion of the Institute with the Society which was in contemplation in 1896 had been carried into effect, the profession would have become a closed profession, and these other bodies would never have seen the light of day. Since then, and from time to time, steps have been under consideration with a view to registration for the profession, or fusion with the Scottish Institutes, but for one reason or another nothing tangible has emerged. The Institute stands alone, and it is, therefore, of ever increasing importance that every one of its members should do his utmost to maintain its traditions and act up to the principles for which it was founded.

Let us remember that the greatness of the profession rests in the long run upon the individuals who compose it, upon individual talent, individual integrity, and upon a correct view of the responsibility which we owe to the public and to one another.

On the subject of imitators, I desire to call attention to the improper and misleading use in foreign countries and in the Dominions of the word "Chartered" by members of societies or associations of accountants which are not incorporated by Royal Charter.

It has recently come to the knowledge of the Council that in the United States of America a so-called "Institute of Chartered Accountants" has been formed on a purely commercial and voluntary basis, with an entrance fee of \$25 for Fellows and Associates, and \$6 for Juniors, with a small annual subscription. Under the bye-laws of this body, members are entitled to use the initials "F.C.A." and "A.C.A.," and the directors publish and sell a monthly paper called the *Chartered Accountant*, which is described as the official publication of "The Institute of Chartered Accountants." Membership of this Institute appears to be open to anyone over twenty years of age who pays the entrance fee and subscription, and no examination seems to be required, although there is a statement that applicants must have had three years' public accounting service.

In China certain public accountants are using, in English, the description "Chartered Accountants," and recently a movement has been set on foot to form an "Association of Chartered Accountants" there.

In certain provinces of the Dominion of Canada an "Institute of Chartered Accountants" has been incorporated by Act of the Legislative Assembly, *e.g.*, in Alberta.

In the Union of South Africa an attempt was made in 1924 to promote a bill for the registration of accountants, and in committee an amendment was inserted that all accountants registered under the Act should be entitled to use the designation "Chartered Accountant," which was described as the "hall-mark" of accountancy. The Bill was strenuously opposed by the Council of our Institute, and was dropped for the time being, but the question has again become acute by reason of the registration of a private company under the title of "The Society of Chartered Accountants in the Province of the Cape of Good Hope," with special power for members of such company to use the designation "Chartered Accountant." Moreover, it is understood that registration of similar companies is contemplated or is proceeding in other provinces of the Union.

The above instances clearly show the attempts which are being made to usurp the description "Chartered," and in the hope that misuse of the term may be prevented a memorial was recently addressed by the Council to H.M. Privy Council submitting that the description "Chartered" can only properly be applied to a body of persons who have secured the privilege of incorporation by Royal Charter, and pointing out that the unauthorised use of the word "Chartered" is not only unfair to the members of the Institute of Chartered Accountants and other genuine Chartered bodies, but it is also calculated to mislead and deceive the public, who are thus led to believe that they are dealing with a member of a body which has established a reputation for efficiency, honour and fair dealing.

It is not inappropriate that I should remind you that by the terms of our Charter our operations, and the jurisdiction of the Council, are confined to England and Wales. No doubt at the time when the Charter was obtained it was little thought that Chartered Accountants would be practising in all parts of the world. There is little doubt that the fact that our operations were confined to England and Wales was in order to meet the wishes of the Scottish bodies. Since those days, however, the ever-increasing employment of British capital in all parts of the world has caused the Chartered Accountant's practice to become world-wide. This gives rise to many questions of difficulty, all of which are engaging the attention of the Council, and it may be that a way will be found of strengthening our position in this connection.

During this year an attempt was made by an insurance company to obtain power, in a Bill it presented to Parliament, to undertake the offices of liquidator, receiver, auditor and trustee in bankruptcy. The matter came before the Council on the report of the Law and Parliamentary Committee, and it was decided to oppose the Bill to the utmost of our power. It was felt that the Legislature ought not to entrust important duties of a personal character to a corporate body, such being repugnant to the various Acts of Parliament governing administration and audits, and that by so doing they would unfairly encroach upon professional duties which our members discharge with recognized ability.

The Council was hampered by the fact that, unknown to us, other insurance companies had years ago obtained these powers, so that we had to contest our case in face of precedents which were against us. It goes to show how greatly the profession has advanced in public esteem that the

Committee of the House of Lords, before whom the matter came, refused the powers and established, as I hope for all time, that these important functions cannot properly be discharged by corporate bodies, and that the community can continue to look to the individual.

The decision thus obtained was important to the profession, for had we failed the door would have been opened for the formation of joint stock companies to carry on our professional work. Now I think we can rest assured that it is closed for ever.

As an instance of the world wide expansion in the employment of professional accountants, I desire to refer to the International Congress of Accountants which took place in July of this year in Amsterdam, under the Presidency of Mr. van Dien. A report of the proceedings at this Congress appeared in the *Accountant* of July 10th and 17th. Notwithstanding the difficulty of conducting these proceedings in tongues which were foreign to most of the delegates present, for there were no fewer than eighteen countries represented, the meetings were of a nature to impress upon those who attended the Congress that many foreigners who have hitherto not been regarded as seriously concerned with the practice of professional accountancy have become incorporated, in one form or another, into representative bodies. I do not pretend to know to what extent such bodies approach the professional status of the Chartered Accountant in this country, or whether they do the work upon which he is engaged, but the Congress undoubtedly established, in a manner which was to many of us a revelation, that a strong feeling of appreciation of the value of accuracy in accounting is growing throughout the civilised world.

It was noteworthy that American accountants attended the Conference in considerable strength.

The Institute of Chartered Accountants cannot but regard with sympathy a movement which is calculated to inspire its votaries with a high standard of work. The fact that there is this world wide awakening to the importance of figures furnishes another reason for holding fast to our principles and continuing to act in accordance with the high ideals which our Charter has set before us.

It must not be taken that I am suggesting that our members fall short of these ideals. On the contrary the serious departures from strict professional conduct are happily few and far between. Our members now number upwards of 7,000 and there has been a large addition to our ranks during the last few years. The cases which come before the Investigation Committee (that is the Committee of the Council which is appointed under the bye-laws for the purpose of inquiring into professional conduct generally) in the main arise from an ignorance on the part of members of the principles which the Council holds to be essential.

Our Charter and bye-laws throw upon members of the profession the duty of laying before the Investigation Committee any lapse which may be observed on the part of any of our members. This, in effect, throws the care of professional conduct into the hands of every individual member of the Institute. Whilst on the one hand the Council is bound, in the interests of the profession, to see that a proper standard of professional conduct is maintained, they are there equally to protect our members from any unfair or unreasonable attack upon them. When a member is arraigned before the Council on a complaint, the Council hear the case with the greatest possible care, and decides, as it only can decide, if the decision is against the member, to suspend or exclude him, according to the nature of the offence he may have committed.

As matters stand at present the Charter does not confer upon the Council any power to admonish the member against

whom a complaint has been made of having been guilty of a discreditable act or default. This omission places the Council in the position of having to exclude the member, or suspend him, or to take no further action in the matter. It is clear that in practice there must be many border line cases which could be dealt with more favourably and without harshness if the Council possessed powers of admonition.

Such a power would be valuable, and it may be that before long the Council will see its way to formulate proposals which will improve its working in this connection.

As I have said, many offences arise from ignorance, and I cannot do better than direct the attention of the profession to some very important articles which appeared in *The Accountant* during the first four months of this year on "The Etiquette of the Profession." Such articles are an important contribution to a subject which is complex. They are well thought out and should prove of great value, especially to the younger members of the Institute. They will repay close study, and will help many in a case of difficulty.

It is sometimes claimed by members of the profession that the Council is cold and unympathetic, and that when members ask for advice they are told that the Council cannot give it. It cannot be too clearly understood that the Council is, under sect. 20 (3) of the Charter, the constituted authority to hear and adjudicate upon complaints made by a member or any person aggrieved, and that to give advice to members might act as an embarrassment in any case upon which the Council might be called to adjudicate. Unfortunate as it may appear, there seems to be no way in which the Council can meet this difficulty. I recommend that if a member is in a difficulty of this nature he should seek the advice either of the local Society (if a provincial member) or write to the Secretary. Short of giving advice, it may be possible to direct the member to decisions upon which the Council has already acted, and which may be of assistance in helping him.

I sometimes hear it said that membership of the Institute confers no advantage commensurate with the payment of the annual subscription which is required, and the question is asked: "What has the Institute done for me?" Such a question is asked by the unthinking, and is indicative of a mind possessing but a narrow and restricted outlook. To such an one I would ask another question: What have you done for the Institute? Are you in good practice? Are you making progress in the world? Or, are you stuck fast in the mud? If the latter, you had better pull yourself together, because nothing on earth that I know of will help you except your own endeavour. If, however, the question is prompted by one whose professional efforts have been rewarded by some degree of success, then I would ask him to consider what his position would be if the Institute had never existed, and he had never been a member of a body possessing corporate life. Is it to be supposed that he would or could occupy a position in the world or amongst his clients of anything like the standing which he now possesses? Is it to be thought that as a mere professional accountant men would regard him as possessing the same cachet, the same status which they attach to the Chartered Accountant of to-day? Assuredly not! Then let him do his best to contribute something to the corporate life of the profession and cease to grumble! He has inherited a position built up by years of self denial and labour and example, given freely by those whose energies have been spent in making the term "Chartered Accountant" honoured and respected throughout the whole civilised world.

I desire before I sit down to congratulate the Editor of the *Accountant* upon the great improvement which has been

effected in the paper during the past year and a half. As a medium of communication between Chartered Accountants throughout the world, and as a means of education and spread of professional knowledge, the *Accountant* performs a most useful function. The Taxation Supplement is of particular value.

I am not without hope that the paper may increasingly be enriched by contributions from members, particularly those who have an aptitude for essay writing, and for pronouncing opinions upon professional subjects in a clear and concise manner, remembering that such contributions have an educational value which will go far to maintain and uphold professional knowledge and help the younger members in following the career which they have chosen.

I cannot close this address without making a strong appeal to you to render assistance to the relatives of those members of our profession who have fallen upon evil times.

In my capacity as your President it is my privilege to sit upon the Board of the Benevolent Association, and I am bound to say that the scale upon which assistance is rendered to the needy falls short, in my judgment, of what is adequate. I believe that you would share my view if you were there too.

A perusal of the annual report is a clear indication that much more ought to be done. The Benevolent Association has an income derived from annual subscriptions of only about £2,000. The Committee could do more in the way of relief if it were assured of a larger income. It stands in need of annual subscriptions—a regular income upon which it can count. I have suggested that an appeal should be made to our members to contribute a sum of money in the form of an annual subscription by means of a bankers' order payable on January 1st in each year. Such a subscription would become automatic, part of a firm's office expenses, and the sum produced would place the Board in a very different position from that in which it is in to-day. If each of the practising members of the Institute were to subscribe £1 and each of the non-practising 5s. annually, the Committee would have an income of upwards of £4,200 a year. Such sum, together with the income from invested funds, would be enough to meet all claims in a way which would be a credit to the profession, and I feel that in bringing this to your notice you will endorse my view, and that I shall not make an appeal in vain.

In concluding this address, I feel I ought to offer an apology for taking up so much time. I have drawn a large draft upon your patience, but I feel that this, the first occasion I have the honour of addressing my professional brethren, affords an opportunity of taking stock of the position in which we, as a profession, stand to-day. No one ever came to harm by introspective examination, so long as such does not lead to a false conclusion and to the assumption of higher qualities than are in reality possessed. Legitimate pride in the position which we have won is no sin. Our crown has many jewels—gems which add lustre and richness to the whole profession by their brilliance. To-day we rank high in public esteem. It is not in any spirit of boastful egotism and with no thought of fulsome flattery that I have dwelt upon these things. By a careful and dispassionate examination I am led to the conclusion that the great ideals which were prominently put forward at the time when the Royal Charter was obtained have been achieved. By following the direction posts so amply indicated by our predecessors and by the leaders of the profession to-day, we shall advance steadily along the path of progress, and rising to higher things, may render even greater service to the community than it has as yet been our privilege to perform.

THE CHARTERED INSTITUTE OF SECRETARIES.

Annual Report.

The following are extracts from the Report of the Council to be presented at the Thirty-fifth Annual General Meeting on Tuesday, November 2nd.

During the year ending August 31st the net increase in membership was 44. On that date the number on the Roll was 5,824, of whom 1,843 were Fellows and 3,981 were Associates. 228 new members were elected, and 12 former members were re-admitted to membership. The membership which ceased through death and otherwise numbered 196.

The results of the examinations held in December, 1925, and July, 1926, were as follows:—

December, 1925.		Candidates.	Passed.
Preliminary	.. ..	60	27
Intermediate	.. ..	502	174
Final	.. ..	276	94
July, 1926.			
Preliminary	.. ..	83	52
Intermediate	.. ..	614	195
Final	.. ..	319	95
Totals.			
Preliminary	.. ..	143	79
Intermediate	.. ..	1,116	369
Final	.. ..	595	189
		1,854	637

The "Sir Ernest Clarke" Prize for the candidate securing the highest marks in the Final examination was awarded as follows:—

December, 1925: Herbert Haigh (Bradford).

July, 1926: John Lamb Thompson (South Shields).

Language prizes were awarded as follows:—

December, 1925: In the Final examination, three for French and one for Spanish.

In the Intermediate examination, five for French.

July, 1926: In the Final examination, five for French, one for Spanish, and one for German.

In the Intermediate examination, five for French.

The number of students (including articled clerks) registered during the year was 927. The total number on the register at August 31st was 4,038.

The membership of the branches in Great Britain and overseas at August 31st was:—Birmingham and district 253, Bristol and district 102, Edinburgh and East of Scotland 62, Glasgow and West of Scotland 188, Liverpool and district 214, Manchester and district 471, North-East Coast 231, North-East Midlands 106, Sheffield and district 166, South Wales and Monmouthshire 152, West Yorkshire 227, South Africa 132, Australia (Sydney) 313, Australia (Melbourne) 164, Australia (Brisbane) 66, Canada (Montreal) 38.

During the year a branch for Edinburgh and the East of Scotland was formed, with headquarters in Edinburgh.

In co-operation with the authorities of Edinburgh University, the Institute has established a lectureship in Secretarial Practice at that University. There are also available at that centre classes in several subjects of the Final examination. The other Universities at which lectureships in Secretarial Practice have been established, and where classes in the other examination subjects are provided, are:—London University, Durham University (i.e. at Armstrong College, Newcastle-on-Tyne), and Sheffield University.

The Institute offers a prize of £3 3s. at each June Final examination to the best pass candidate from each University course whose attendance there has been at least 75 per cent.

The Institute offers also a prize of £2 2s. at the examinations each June to the best pass candidate from the classes of a complete Institute examination course provided by local educational authorities in the United Kingdom whose attendance at those classes has been at least 75 per cent.

It is the policy of the Council to encourage attendance at classes for the Institute examinations provided by universities and by local education authorities. Accordingly it has approved an arrangement by which a pass in certain subjects (other than Secretarial Practice and Commercial Correspondence), limited to three, in the sessional examinations of those universities, and (if specially approved for the purpose of the Council) of an educational authority, providing full courses for the Institute Examinations will be accepted in lieu of a pass in the same subjects in the Intermediate examination of the Institute. The sessional examination papers and markings will be supervised by an assessor appointed by the Institute.

New centres for the half-yearly examinations have been established at Bristol University, and Trinity College, Dublin.

The Autumn meeting in London in 1925 began with the Annual General Meeting on November 3rd, and was followed on the 4th by the Annual Dinner at the Hotel Victoria, when a distinguished gathering supported Mr. James W. Slack, the President for that year.

Bristol was the venue of the fifth Country Conference which took place on Thursday and Friday, June 10th and 11th last, at the invitation of the Bristol and District Branch. The attendance included representatives of all the branches in England and Wales. Mr. Henry Clark, the President, took the chair at the meetings.

The proceedings opened with a civic welcome by the Lord Mayor of Bristol, Alderman Frank Moore. Then followed a paper by Mr. W. G. Hislop (London) (Member of Council) on "Joint-Stock Principles in relation to Commercial, Industrial, and Social Developments," which led to an interesting discussion.

On the second day, June 11th, Mr. P. F. Knightley, D.S.O., A.C.I.S., of the Anglo-Persian Oil Company, Limited, London, read a paper on "System in the Share Department," which led also to the discussion of many useful points in office procedure.

At the Conference Dinner the President was in the chair, and the Lord Mayor, the Lady Mayoress, the Sheriff, and many prominent citizens were present.

The Bristol Port Authority kindly arranged for an inspection of the Avonmouth Docks, and visits were made to the cocoa and chocolate works of J. S. Fry & Sons, Limited, and to the tobacco factories of W. D. and H. O. Wills [The Imperial Tobacco Company (of Great Britain and Ireland) Limited], through the courtesy of the respective directors. Visits were also made to the Cheddar Gorge and Caves, and to Wells Cathedral.

To meet the demand for the Institute Manual, "Secretarial Practice," of which the third edition, published in November, 1924, had been absorbed, it was necessary to issue a "Third Edition (revised)." This is substantially a reprint of the previous edition, except that it has been brought up to date by including references to the new Acts and to recent decisions of the Courts. The chief alterations are in Chapter XX on powers of attorney, which has been brought into conformity with the new Law of Property Act, 1925, and largely rewritten; there are also improvements and new material in the appendices.

The Committee appointed by the Board of Trade in 1925 under the chairmanship of Mr. Wilfred Greene, K.C., to report what amendments are desirable in the Companies Acts, 1908-17, has submitted its report. The recommendations therein include several of the suggestions that were contained in the evidence submitted by the Institute, of which a summary was given in the last annual report.

Arising from a recent requirement of the Inland Revenue Authorities for further 10s. duty on powers of attorney in respect of each donor (where more than one is named therein), and each donee (where more than one is named therein), the Institute communicated with the authorities with a view if possible to a continuance of the practice hitherto in force for stamping these documents upon which a single duty of 10s. has been considered sufficient, irrespective of the number of donors or donees. The Institute was also in communication with the Institute of Bankers on the subject. As a result the authorities have stated in a letter to the Chartered Institute of Secretaries that "they are prepared to stamp with the single duty of 10s. powers of attorney which appoint jointly or

severally several individuals who are all members or employees of the same firm or employees of the same company." The Inland Revenue have also stated that "in the case of most powers of attorney given in favour of several individuals who are members of the same firm or employees of the same firm or company, the terms of the document will afford an indication of that fact, either by the description or by the address, but if the fact is not apparent or is not otherwise within the knowledge of the Registrar, and the power of attorney bears only one 10s. stamp, the Registrar may accept the statement of any of the parties named in the document or concerned with its preparation." The position, though modified from that first taken up by the Inland Revenue Authorities, imposes an undue liability on the registering officer under sect. 12 of the Stamp Act, 1891, in respect of registering an instrument that is insufficiently stamped. It also hampers the activities of donors and donees of powers of attorney. The Council has the matter still under consideration.

Mr. William Ellerslie Wallace, Member of Council for eighteen years, died suddenly on May 1st. The Council has placed on record and has conveyed to his family its deep sense of the loss sustained by the Institute. He rendered valuable service on the Council, and his business experience was always at the disposal of the members.

Sir Josiah Stamp, G.B.E., was obliged to resign his seat on the Council during the year owing to pressure of work.

To fill the vacancy consequent on Mr. J. W. Slack becoming a past President, Mr. George William Booth, F.C.I.S., Secretary of J. Lyons & Co., Limited, was co-opted to the Council.

Mr. Alfred M. Rickards, F.C.I.S., Secretary of the British American Tobacco Company, Limited, has been co-opted to the Council in place of Sir Josiah Stamp.

Mr. F. Gurdon Palin, F.C.I.S., Secretary of the British Metal Corporation, Limited, has been co-opted to the Council in place of the late Mr. W. E. Wallace.

The accounts of the Benevolent Fund, which also accompany the report, show that the amount contributed during the year was £1,026 3s. 10d. and £897 19s. 1d. was distributed in grants and allowances (including payment of school fees). The balance in hand will meet, it is hoped, the calls on the fund until the new year's contributions begin to arrive in January.

District Societies of Incorporated Accountants.

BIRMINGHAM AND MIDLAND.

Annual Report.

In presenting the thirty-fifth annual report and financial statement, your Committee have pleasure in drawing attention to the satisfactory financial position of the Society, which shows an excess of income over expenditure for the year of £88 7s. 1d. and an accumulated surplus on revenue account of £226 7s. 1d.

The aim of the Education Committee during the past session was to arrange a series of lectures and luncheons, which would be of interest to the qualified members as well as to the students. Several mid-day luncheons were held, at which members had the opportunity of meeting to discuss in an informal way matters of general interest to the profession. A number of the lectures were well attended and appear to have been appreciated.

A series of interesting lectures for the coming session has been arranged, and the Committee urge all members to make every endeavour to attend these meetings. The Committee also have pleasure in reporting that they have extended an invitation to the President of the Parent Society to attend a dinner in Birmingham in March, 1927.

The Committee express their thanks to the Parent Society for a grant, and to the Lecturers for their valuable services.

Attention is again drawn to the Society's library at the Chamber of Commerce, which is kept up to date.

The following members of the Committee retire by rotation, and are eligible for re-election: Mr. J. D. Beck, Mr. G. Horton, and Mr. T. Harold Platts.

There are two resignations from student members of the Educational Committee and nominations are invited from members wishing to take an active interest.

LIVERPOOL.

Syllabus of Lectures.

1926.
Oct. 6th. "Income Tax," by Mr. Charles Tunnington, F.S.A.A.
Oct. 21st. General Discussion, Chair to be taken by Mr. Charles R. Whitnall, F.S.A.A., President.
Nov. 4th. "Effects of Artificial Interference with Economic Laws," by Mr. Stanley Dumbell, M.A.
Nov. 18th. "Statistics," by Mr. D. Caradog Jones, M.A., F.S.S.
Dec. 2nd. "Important Points on Branch Accounts (1)," by Mr. P. Taggart, F.S.A.A.
1927.
Jan. 6th. "Important Points on Branch Accounts (2)," by Mr. P. Taggart, F.S.A.A.
Jan. 19th. "Some Practical Notes on Insolvencies," by Mr. C. Semper, F.S.A.A.
Feb. 3rd. "Loss of Profits Insurance," by Mr. Percy D. Stewart.
Feb. 16th. "Arbitration in Trade Disputes," by Mr. F. J. Marquis.
Mar. 3rd. "Departmental Store Finance," by Mr. W. B. Chrimes.
Mar. 16th. "Financing and Recording of Foreign Business Transactions," by Mr. Gilbert Petrie, F.S.A.A.

MANCHESTER.

Annual Report.

The Committee present to the members the following Report on the work of the Society for the year 1925-26.

THE SOCIETY'S FORTIETH ANNIVERSARY.

The year 1926 has been memorable in the annals of the Society by the celebration of its 40th anniversary on January 26th, when a gathering of over 90 members and friends assembled at the Midland Hotel. The President, Mr. Geo. A. Marriott, F.S.A.A., occupied the chair, his immediate supporters being Mrs. Piggott, Mrs. Marriott, Mr. Walmsley and Mr. Piggott, and all the living Past Presidents (with the exception of Mr. Henry Steele—represented by Mr. Spedding) named below.

A presentation was made to Mr. and Mrs. Arthur E. Piggott in recognition of Mr. Piggott's 40 years services to the Society.

PRESENTATION OF PAST PRESIDENTS' BADGES.

The following Past Presidents of the Society were presented with miniature replicas of the Presidential Badge:—Mr. Frederic Walmsley, J.P., F.S.A.A., 1890-97; Mr. Arthur Edwin Piggott, F.S.A.A., 1900-03; Mr. Frederick Arthur Fitton, F.S.A.A., 1903-05; Mr. Henry Steele, F.S.A.A., 1905-07; Mr. Fred Hargreaves, F.S.A.A., 1909-11; Mr. Nathaniel Duxbury, F.S.A.A., 1913-15; Mr. Thomas Silvey, F.S.A.A., 1915-19; Mr. Wm. Eaves, F.S.A.A., 1919-22; Mr. Alfred Nixon, F.S.A.A., F.C.A., 1922-24; Mr. Robert Heatley, F.S.A.A., 1924-25.

MEETINGS.

There were nine meetings of the members and seven of the Committee. The 39th Annual Meeting was held on October 22nd, 1925. Mr. Geo. A. Marriott was elected President, and Mr. Albert Chadwick, of Bury, Vice-President.

The monthly luncheons have proved successful, and are greatly appreciated by the members. Owing to increased attendance it was decided to meet at the Midland Hotel and arrange to have a speaker at each lunch. The following gentlemen spoke at the luncheons:—Mr. Geo. Wilcocks, H.M. Principal Inspector of Taxes, "Income Tax Matters"; Mr. A. W. Balmer, Comptroller to the Overseers, "Rating of Machinery"; Mr. J. Lea Axon, "Compensation under Re-Housing Schemes"; Mr. T. M. Young, Deputy Public

Trustee, "What the Public Trustee does"; Mr. B. B. Ormerod, "The New Doctors' Bill Insurance"; Mr. W. H. Goulty, Solicitor, President Manchester Statistical Society."

Mr. Jas. A. Hulme, F.S.A.A., 88, Mosley Street, has kindly undertaken all arrangements in connection with these luncheons. His valued services are much appreciated by the Committee.

MEMBERSHIP.

There has again been a gratifying increase of membership, the number at July 31st being 219.

During the session a series of lectures were held under the auspices of the Students' Section, and thanks are tendered to the lecturers.

EXAMINATIONS.

The Examinations of the Parent Society were held in Manchester on November 9th, 10th, 11th and 12th, 1925, and on May 3rd, 4th, 5th and 6th, 1926. Mr. Piggott, who was responsible for the arrangements, was assisted by a number of members of the Society.

Among the successful candidates in the Final examination were Mr. T. Colton, Clerk to Shuttleworth & Haworth, Manchester (Sixth Place), and Mr. H. C. Farrington, Clerk to J. H. Pontefract, Manchester (Third Place).

The annual dinner of the Society was held at the Midland Hotel, on February 25th. Mr. Geo. A. Marriott, F.S.A.A., President, occupied the chair, and 117 persons were present, including a distinguished company of guests.

CONFERENCE OF DISTRICT SOCIETIES.

A Conference of representatives of District Societies was, on the invitation of the Council of the Parent Society, held in London on June 9th. There was a large attendance of representatives, and a report presented from the Committee was adopted.

MANCHESTER UNIVERSITY ADVISORY COMMITTEE OF COMMERCE.

Mr. Arthur E. Piggott has been re-appointed for a period of three years from January 1st, 1926, as the representative of the Society to serve on this committee.

COMMITTEE.

The retiring members of the Committee are Mr. Albert Chadwick, Mr. Wm. Eaves, Mr. Fred Hargreaves, Mr. Robert Heatley, and Mr. T. W. Sowerbutts.

NEWCASTLE-ON-TYNE.

Annual Report.

The Committee have pleasure in submitting the twentieth report and accounts to June 30th, 1926.

Your Committee desire to place on record a cordial expression of thanks to the gentlemen who have so kindly delivered lectures to the District Society during the year; to the council of Armstrong College, Newcastle-on-Tyne, for kindly allowing the use of their lecture rooms; to the Principal of the Technical College, Sunderland, for also allowing the use of a lecture room; and to the Parent Society for a grant.

During the year 24 new members were admitted, making a total membership of 208 at June 30th, 1926.

EXAMINATIONS.

Nine student members were successful at the Society's Final examination and eleven at the Intermediate examination held in 1926.

The Committee specially congratulate Mr. S. J. Elliott, who obtained Second Prize and Second Certificate of Merit in the November Final examination, and Mr. J. B. Sanderson, who obtained First Prize and First Certificate of Merit in the May Final examination.

LECTURES AND MEETINGS.

Ten meetings were held during the year. About 50 members visited West Hartlepool and, together with about 50 members of the commercial community of the borough, were entertained by the Vice-President (Mr. T. R. G. Rowland).

During the session monthly luncheons were held at Newcastle-on-Tyne, but the attendance throughout was poor.

The Hon. Secretary attended a Conference of representatives of District Societies with members of Council at London on

October 28th, 1925, and on June 9th, 1926, when various matters relating to the activities of the District Societies were discussed.

The Hon. Secretary also attended a Committee meeting of the Committee of Representatives of District Societies at London on June 29th, 1926. A report of each of these meetings is attached to the minutes of the District Society.

The members of the Committee who retire at this time are Mr. Wm. Hughes, Mr. Wm. M. McKenzie, Mr. T. W. Scollick and Mr. W. H. Stalker. They are eligible, and offer themselves for re-election.

Syllabus of Lectures.

- 1926.
- Oct. 20th. "Duties and Liabilities of Auditors," by Mr. Wilfred H. Grainger, A.S.A.A.
- Nov. 10th. Annual General Meeting and Dinner.
- Nov. 17th. "Economics, and some of its Relations," by Mr. E. D. McCallum, M.A., Lecturer in Economics, Armstrong College, Newcastle-on-Tyne.
- Dec. 1st. "Recent Changes in the Law of Property, &c.," by Mr. J. M. Baily, M.A., Barrister-at-Law, Newcastle-on-Tyne.
- Dec. 15th. Mock Meeting of Directors and Auditors.
- 1927.
- Jan. 12th. "The Law of Property Acts as affecting the Accountancy Profession," by Mr. E. Westby-Nunn, B.A. (Hons.), LL.B. (Cantab); at Sunderland.
- Jan. 25th. "Stock Exchange Transactions," by Mr. M. J. Mail, Newcastle-on-Tyne.
- Feb. 9th. "Loss of Profits Insurance," by Mr. Percy D. Stewart.
- Feb. 18th. "The Principles of Business Finance," by Mr. A. Lester Boddington; at West Hartlepool.
- Mar. 9th. "Construction of Final Accounts of a Manufacturing Concern," by Mr. W. B. Lindley, A.C.A.

The first meeting of the session was held, on October 20th, in Armstrong College, Newcastle-on-Tyne, under the chairmanship of Mr. Richard Smith, F.S.A.A. (President of the District Society). Mr. Wilfred H. Grainger, A.S.A.A., London, delivered a lecture on "The Duties and Liabilities of Auditors." The definition of an auditor, he said, was "watch-dog, not bloodhound." Amongst the qualifications of an auditor were tact, patience and conscientiousness, and the gift of not antagonising the staff where an audit was being conducted. The foundation of success was character, and in gaining wisdom they must also get understanding. The functions of auditors were, briefly, to detect errors of principle and fraud, to certify accounts for income tax and to check clerical work. The Lecturer proceeded to discuss the manipulation of accounts, the liability of auditors, and their duties and obligations regarding stock dividends paid out of capital, secret reserves, capital profit and divisible profits, and auditing generally.

The Committee of the Newcastle-on-Tyne District Society announce that it has been decided to award prizes to student members who take honours at the examinations of the Parent Society, provided the candidates are actually members of the District Society at the date of the examination. The prizes will be in the form of books, and special first prizes will be awarded in the Final and Intermediate examinations respectively. There will also be prizes for all other honours candidates.

SHEFFIELD.

Syllabus of Lectures.

- 1926.
- Nov. 5th. "Parliamentary Principles and Practices," by Mr. R. Storry Deans, M.P.
- Dec. 7th. "Bankers' Advances against Balance Sheets," by Mr. R. S. Boyt, London.
- 1927.
- Jan. 11th. "Accounts as a Method of Control," by Mr. A. Lester Boddington, F.S.S., London.
- Feb. 8th. "New Law of Property Act," by Mr. A. Halkyard, LL.B., London.

1927.
 Mar. 11th. "Finance Act," by Mr. R. W. Needham, London.
 Mar. 30th. "Balance Sheets of Public Companies," by Mr. Henry Morgan, F.S.A.A., Vice-President of the Society of Incorporated Accountants and Auditors.

These lectures will be given in conjunction with the Sheffield and District Institute of Chartered Accountants, the Sheffield and District Institute of Bankers, the Sheffield and District Chartered Institute of Secretaries, and will be held at Norris Deakin Buildings, King Street, Sheffield, on the dates named, at 6.30 p.m.

In addition to the above lectures, arrangements are being made for special meetings of our members and students, on similar lines to those of last Session, and particulars will be announced in due course.

SOUTH WALES AND MONMOUTHSHIRE.

1926. **Syllabus of Lectures.**
 Sept. 24th. Short Papers, by Students; at Newport.
 Oct. 14th. "Costing," by Mr. A. D. Thomas, A.S.A.A.; at Cardiff.
 Oct. 22nd. "Economics," by Mr. A. E. Pugh, F.S.A.A., F.R.Econ.S.; at Swansea.
 Oct. 22nd. "Contracts," by Mr. J. D. R. Jones, A.S.A.A.; at Newport.
 Nov. 3rd. Short Papers, by Students; at Swansea.
 Nov. 18th. "Bankruptcy," by Mr. C. T. Stephens, A.S.A.A.; at Cardiff.
 Nov. 19th. Short Papers, by Students; at Newport.
 Nov. 25th. Joint Lecture with the Institute of Municipal Treasurers (Incorporated), the Institute of Chartered Secretaries, and the Institute of Cost and Works Accountants: "Some Social and Economical Developments during the Second Quarter of the Nineteenth Century," by Mr. H. J. Smith, O.B.E.; at Cardiff.
 Dec. 8th. "Partnership Accounts," by Mr. R. A. Wetherall, F.S.A.A.; at Swansea.
 Dec. 9th. "The Laws and Principles of Insurance," by Mr. H. Meanock; at Cardiff.
 Dec. 10th. Income Tax Appeal, by Students; at Newport.
 Dec. 15th. "General Principle of Jurisdiction," by Mr. C. E. P. Davies, M.A., B.C.L.; at Swansea.
 Dec. 16th. "Executorship Law and Accounts," by Mr. W. H. Grainger, A.S.A.A.; at Newport.
 1927.
 Jan. 7th. Short Papers, by Students; at Newport.
 Jan. 13th. "Debentures," by Mr. J. T. Phoenix, Solicitor; at Cardiff.
 Feb. 4th. "Partnership Law," by Mr. A. A. Warren, Barrister-at-Law; at Newport.
 Feb. 10th. "Elements of Economics," by Mr. W. A. Stewart Jones, F.R.Econ.S.; at Cardiff.
 Feb. 18th. "The Law of Contracts," by Mr. A. A. Warren, Barrister-at-Law; at Cardiff.
 Mar. 4th. Short Papers, by Students; at Newport.
 Mar. 10th. "Changes in the Law relating to Property," by Mr. Ll. Francis, Solicitor; at Cardiff.
 Mar. 17th. "Accountants and Auditors' Certificates," by Mr. W. H. Ashmole, M.B.E., F.S.A.A.; at Cardiff.
 Mar. 25th. "Rights and Duties, Liquidators, Trustees and Receivers," by Mr. C. T. Stephens, A.S.A.A.; at Newport.
 April 7th. "Trustee Act, 1925," by Mr. W. H. Williams, Barrister-at-Law; at Newport.
 April 14th. "Comparative and Interim Accounts," by Mr. A. Percy Horton, F.S.A.A.; at Cardiff.
 April 28th. Annual Dinner; at Cardiff.

YORKSHIRE.

1926. **Syllabus of Lectures.**
 Sept. 24th. Opening Night of the Session at Griffin Hotel, Boar Lane, Leeds. Annual General Meeting in the York Room. Dinner and Concert. *Chairman:* Mr. Fredk. Holliday, F.S.A.A., Leeds.

1926.
 Oct. 12th. "Bankruptcy," by Mr. Wilfred H. Grainger, A.S.A.A., London. *Chairman:* Mr. Alfred Walton, F.S.A.A., F.C.A., Leeds.
 Oct. 26th. "Loss of Profits, Insurance and Claims Settlements," by Mr. R. G. Knight, of Head Office, Liverpool, London and Globe Insurance Company, Limited. *Chairman:* Mr. J. W. Carter, F.S.A.A., Leeds.
 Nov. 3rd. "Recent Income Tax Developments," by Mr. A. G. McBain, C.A., Glasgow. *Chairman:* Mr. J. H. Henderson, F.S.A.A., Leeds.
 Nov. 24th. "Some Modern Problems of the Foreign Exchange," by Professor Douglas Knoop, M.A., of Sheffield University. *Chairman:* Mr. A. Schofield, A.S.A.A., Leeds.
 Dec. 7th. "Mock Income Tax Appeals." Joint Meeting with the Bradford and District Incorporated Accountants' Society; at Leeds. *Chairman:* Mr. G. Malthouse, A.S.A.A., Leeds.
 Dec. 14th. Debate on Business Relations between the Secretary and the Auditor. Joint Meeting with the Chartered Institute of Secretaries (West Yorkshire Branch) at the Hotel Metropole, Leeds. *Chairman:* Mr. Henry Bray, A.S.A.A., Leeds.
 1927.
 Jan. 11th. Lecture by Mr. Victor Walton, A.C.A., Leeds (subject to be announced later). *Chairman:* Mr. George Astle, A.S.A.A., Leeds.
 Jan. 25th. "Criticism of Balance Sheets," by Mr. A. Lester Boddington, F.S.S., London. *Chairman:* Mr. Oswald Coope, A.S.A.A., Leeds.
 Feb. 8th. "The Auditor and his Legal Responsibilities," by Mr. R. T. McCutcheon, F.S.A.A., F.C.W.A. *Chairman:* Mr. Arthur France, F.S.A.A., Leeds.
 Feb. 22nd. "Investigations in respect of Fraud, of Promotion, and of the Purchase of a Business," by Mr. E. Miles Taylor, F.C.A., London. *Chairman:* Mr. Thomas Hayes, F.S.A.A., Leeds.
 Mar. 8th. Lecture by Mr. Henry Morgan, London, Vice-President of the Society of Incorporated Accountants and Auditors (subject to be announced later).
 Mar. 15th. Debate or Mock Meeting. Joint Meeting with the Bradford and District Incorporated Accountants' Society, in the Liberal Club, Bank Street, Bradford.
 Mar. 22nd. "Some Problems of Taxation," by Mr. G. H. Austin, B.A., Ph.D., Leeds. *Chairman:* Mr. Wm. Gaunt, F.S.A.A., Leeds.

All lectures are held in the Chapter Hall, Church Institute, Albion Place, Leeds, unless otherwise stated, at 6.30 p.m.

The opening lecture of the session was given at Leeds on October 12th, 1926, when Mr. Wilfred H. Grainger, A.S.A.A., of London, delivered a paper on "Bankruptcy," including the new provisions of the 1926 Act. The chair was taken by the President, Mr. Alfred Walton, F.S.A.A., F.C.A. (Leeds), and about 50 students and senior members were present. At the close of the paper fifteen minutes was devoted to a discussion in which student members took an active part.

Incorporated Accountants' Students' Society of London.

The session of Lectures of the London Students' Society opened on October 5th at Cordwainers Hall. An afternoon Reception was given by the President, Mr. McIntosh Whyte and Mrs. McIntosh Whyte, who entertained the members and their friends. The function gave members of the Students' Society an opportunity of meeting one another, and before the commencement of the lecture which followed, Mr. Thomas Keens, President of the Parent Society, expressed to Mr. and Mrs. McIntosh Whyte the thanks of the members of the Students' Society for the kind hospitality they had enjoyed, and for the interest of Mr. and Mrs. McIntosh Whyte in the work of the Society. The Students' Society are indebted to the Worshipful Company of Cordwainers for kindly granting the use of the hall.

Some Principles of Cost Accounts.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

CAPTAIN H. E. DAVIS, M.C.
INCORPORATED ACCOUNTANT.

The chair was occupied by Lieut.-Colonel JAMES GRIMWOOD, C.B.E., D.S.O., Incorporated Accountant.

CAPTAIN DAVIS said: A Cabinet Minister the other day gave a definition of the difference between rates and taxes. He said the former were paid in sorrow and the latter in anger. Unscientific business men to-day regard *all* expenditure on accounts as non-productive. Their accountants' fees are paid with sorrow, but any suggestion of expenditure in keeping proper cost accounts moves them to anger. And I think that many students regard the subject of cost accounts with somewhat similar resentment, as a further useless burden placed upon them by the Examination Committee. And yet cost accounts are as necessary an advance in accounting methods as was the advance from tally sticks to books of account.

It is first important to obtain a clear idea of the relative position of cost accounts in the historical development of business organisation; paying special regard to the interdependence of the three sciences of such organisation, viz. accounts, economics and statistics, and to see how cost accounts are but a logical extension of the old form of accounts in order to meet modern conditions.

In the beginnings of trade, transactions were carried out by direct barter, i.e., the exchange of goods for goods (e.g., a lamb for a spear); the first accounts were very simple personal accounts only. We have the parable of the unjust steward to tell us this, and to show that even in those days purely quantity records on a single entry system were found capable of easy manipulation, and led to defalcations. As trade grew goods were exchanged against a standard commodity, e.g., gold and silver, and when this standard commodity grew into a coinage guaranteed by the State, goods were capable of exchange through the medium of such standard commodity only, and the transactions were simply and easily recordable. Thus credit became possible—credit being the introduction of a time gap between the two sides of each exchange of goods—and then began what is known as the modern capitalist system, but which would perhaps be more happily described as the modern credit system. This development called for some convenient and accurate method of recording transactions, and in course of time the double entry system of book-keeping was evolved and generally adopted.

The main purpose of an ordinary set of books is to record all the transactions from two points of view: how they affect the business, and how they affect other people. Periodically, two statements are drawn up, called (1) the profit and loss account, showing the profits and losses of the business, and (2) a statement called a balance-sheet, which shows on one side what the business owes to other people and on the other what is owing to it by other people, the balance being the proprietor's interest in the business assets. The profit and loss account shows the main heads under which profits and losses have been made, but it still shows them from the point of view of outside interests, since we have such heads as wages (which are paid to other people), rent (paid to a landlord), and so on.

In due course these final statements of account were found to be insufficient. Let us consider the profit and loss account as possessing some of the attributes of an ordinary piece of elastic. The elastic unextended represents the profit and loss account in the ordinary total form.

Enterprising traders and manufacturers opened different branches or departments, and wished to know the profits or losses they made on each branch or department, and some idea as to how such profits or losses arose. This was not very difficult. The accountant stretched the elastic and produced that columnar form of account we study for examinations, known as departmental profit and loss accounts.

Now let us carefully examine just what this columnar account means. We have already seen that the ordinary profit and loss account shows expenses under main heads, each head concerned with one class of outsiders. But this columnar form of account shows us as well in what part of the business money was spent or earned—still by the same heads; i.e., we have introduced a system showing us on the debit side the cost of each object of expenditure, and on the credit the recovery or selling price; and these columns are the most primitive forms of cost accounts.

Cost accounts set out to show the cost of, and profit or loss on each object of effort, be it a department or something much smaller in the scale; and we see that while the total of each column gives us the cost of one object, yet the totals of these columns cross cast to the total of the ordinary profit and loss account. It is hardly necessary to state that the summation of the costs of all the objects of effort equals the total of the debit side of the profit and loss account, while the summation of the profits and losses on the objects equal the net profit or loss shown on the ordinary profit and loss account; that is to say, that the cost accounts are capable of check with the financial accounts. The practical application of this truism will be referred to later, for while in theory exact, in practice this agreement as regards some items is only very closely approximate.

Now the great industrial advance of the last century in organisation was what is known as "division of labour," which is a system of specialisation, each worker concentrating on one particular phase of work. Those of you who work in the offices of big firms of accountants will at once appreciate the point: the junior is kept ticking and casting for many weary moons while others specialise on other parts of the audit.

You will all appreciate that the accountant was behind the times. The division of labour synchronised with the introduction of machinery, and the numbers and varieties of manufacturers were greatly increased, which is the same thing as saying that the numbers of objects of effort increased. This increase of actual work made personal supervision by the master of organisation and worker impossible, and so control had to be conducted through the medium of accounts showing the objects in which money is spent, and some system to provide the information as to the cost of a much larger number of objects became necessary.

We thus find that the second great object of cost accounts is to provide the management with information in order to check waste and to assist in management.

In these days of fierce competition, it is essential to know accurately the cost of each piece of work to enable tenders to be made at the lowest price possible, in order to secure a fair share of the contracts. For this purpose information is required as to the past costs of each operation, which then form the basis of the price quoted.

It is important to notice that while perhaps no two jobs are exactly similar, yet there are operations common to many. To

return to our illustration, ticking and casting are common to all audits, but the audits themselves as a whole vary very much.

We thus come to the last great object of cost accounts, the compilation of statistics of past costs in order to provide data for future estimates. Our piece of elastic is now pulled out to the full length, commencing with profit and loss account and finishing with statistical records.

To summarise briefly, cost accounts are required to show the cost and profit on each object of effort in order

- (1) To assist the management to ascertain and deal with any form of waste,
- (2) To assist the management in perfecting the organisation,
- (3) To provide the management with statistical data of past work on which to base future estimates.

They may be compared to the reports sent from the various parts of the front line to a Commander, who can use information promptly and accurately, and make his plans for defeating the enemy while viewing the battle as a whole. While if he were in the firing line he could not get the necessary grasp of all the main details.

Thus cost accounts are really an elastic profit and loss account, and the illustration is apt in that a very essential feature of a satisfactory costing scheme must be elasticity. In the compilation of the statistical tables we require a measure or unit of cost; such unit of cost or of production will be either one article or some other unit of work done, *e.g.*, a sack of flour; a B.T.U. of electricity.

Cost accounts are usually divided into groups as follows:—

- (1) *Single Costs*.—Where there is a single recognisable unit of output. This form is not often met with by itself. Thus we might find in detail and in total the average cost of raising one ton of coal.
- (2) *Departmental Costs*.—Where there are natural divisions of the work, *e.g.*, a factory making sewing machines and bicycles will keep a departmental cost account for each, each with the natural unit of cost.

We see that each departmental account may be of single output class.

- (3) *Process Costs*.—Where the production is divided into certain well defined processes. The products of each process are marketable commodities, some only as bye-products, while others are the raw materials of the next process as well, *e.g.*, oil, from crude oil to the most refined grade.

- (4) *Operating Costs*.—Usually applied to such undertakings as railways, where there is no actual production, the unit of cost being a ton mile, such units involving more than one factor are referred to as composite units of cost.

- (5) *Terminal Cost*.—Where a particular contract is undertaken, *e.g.*, a builder you employ to build your house.

- (6) *Job Costing*.—Where a small contract is undertaken, *e.g.*, having the same builder as before to mend your cistern.

- (7) *Multiple Costs*.—Which occur where there are a multitude of diverse products, *e.g.*, a modern engineering works.

These divisions are not hard and fast, and in fact a considerable amount of overlapping occurs.

The difference is really more in the way records and statistics will be tabulated and presented, and in many cases more than one class is interwoven into the same system, *e.g.*, the accounts of each department may in themselves be of the single output type.

We have already seen that cost accounts are a stretching of the ordinary financial record primarily into columnar form. Where the columns are numerous, a job ledger takes the place of the columns, each account representing a column. The best way to regard a cost ledger is that of an ordinary sectional balancing ledger in a ordinary large concern, with a total account for check purposes. But the job ledger is not the cost account any more than the ordinary ledger is the balance sheet. It is a source of classified information in both cases which enables us to prepare certain accounts.

Taking a profit and loss account, we find that the items of expense divide themselves into two main classes.

- (a) Those expenses which may be directly allocated to each "object," *e.g.*, labour, materials, &c., of whose exact consumption a record can be kept.

This class is usually termed "direct expenses."

- (b) Those expenses which by their nature cannot be allocated to or would cost too much to allocate exactly to each object.

This class is usually called indirect expenses or oncost, and requires charging to the object by some arbitrary method.

It is a fundamental rule in costing that all expenses possible of exact and definite earmarking should be so dealt with, always bearing in mind that the cost must not be out of proportion to the benefit derived.

There are also certain expenses which, while not capable of charge to each object, yet may be allocated to a group of objects; the rule must be adopted to that extent, *i.e.*, oncost should be accurately departmentalised as far as possible.

The more expenses are directly dealt with the more exact the final "cost" is, and obviously variations from exact cost should be minimised as far as possible.

Direct Expenses include:—

- (a) Labour directly spent on the job.
- (b) Material used on the job.
- (c) Chargeable expenses, *i.e.*, those expenses other than labour and material incurred directly for a particular job, *e.g.*, travelling expenses.

Of these three the sum is known as the "prime" cost.

Indirect Expenses include:—

- (a) Labour not directly allocated, *e.g.*, yard duties.
- (b) Materials not directly chargeable to job, *e.g.*, cleaning materials.
- (c) Expenses, *e.g.*, salaries, rent, light, water, &c., which are incurred by the business as a whole and are not capable of final direct allocation to any particular object.

The sum of these being known as overhead expenses, or oncost.

As has already been said, it is obvious that—

- (1) The total of direct labour and indirect labour must equal cash paid as wages.
- (2) Direct materials plus indirect materials must equal the total materials used (or in practice very closely approximate).
- (3) Chargeable expenses and indirect expenses must equal the total of all other expenses as shown on profit and loss account.

Indirect Expenses are usually divided into two portions:—

- (1) Works oncost, being such part of the expense as is incurred up to and including the final production of the finished article, and
- (2) Office oncost, which covers all other items, including selling expenses.

WAGES.

The methods of wage payment are based :—

(1) On the time system : where the workman is paid at a fixed rate for a definite attendance at the factory, i.e., without reference to variations in his output.

(2) On the piece work system : where the workman is paid at a fixed rate per unit of output, without reference to variations in his times of attendance at the factory.

(3) On a time wage : with a scheme of profit sharing.

(4) On a system of departmental estimation : each department estimating for its part of a contract to the head office who amalgamate and add their own charges to arrive at final figures ; fines and bonuses as due or accruing on the whole contract, are shared between the departments, the head office counting as a department and its share including "profit."

The actual division of the wages amongst the workers is a matter of internal agreement in that group of workers.

(5) An amplification of (4) which is in operation in the Sicilian coal mines. The mineowners pay a fixed price per ton for coal at the pit head, and provide certain capital expenditure, such as pit props, &c.

A workers' committee receives the fixed price per ton of coal, and the sharing between the various grades is a matter of internal arrangement. Of course, all supervision is fixed and paid for through the miners' committee.

(6) On the premium system : where a minimum wage of the time class is paid with a premium in addition, directly related to units of output.

This particular principle is gaining favour.

An interesting example of this is the "Rowan" system. A standard time is fixed for each job. A time rate is paid as a minimum, but if the man does the work in a shorter time, the time saved on the standard time is worked out as a percentage of the standard time, and the man's time rate for the job is increased by this percentage. This is one of those systems which seem to make everybody happy, since a man is paid more if he speeds up ; but he can never double his wages, which pleases the management.

The most modern method of fixing rates is by the management and the men in consultation ; (this rate once fixed is not altered except for improvement of method or for an obvious mistake, and then only with the men's consent, and if one time is reduced another is increased.

The essentials of a system for dealing with wages are much bound up with that ordinary principle of "internal check." Where time is a basis of wage payment :—

(1) Each man must inform the management what time he arrives ; that is he must sign on at the gate. This information is used to record in the wages office against each man's name any deductions due to late arrival, &c.

(2) It is usual to have a further record showing what time he started work, kept by the shop foreman, thus checking that the former did not loiter on the way between gate and shop.

(3) Each man must also inform the management when he leaves. This is done by signing off, the information again being forwarded to the wages office for record.

No man should be allowed to leave without signing off unless he is given an authority by a responsible official, e.g., when he is sent out on some special job.

The wages office now know how long a man has been actually at work, and can therefore calculate his total wages.

(4) The man must then account for the total hours he spends at work on a form of time sheet, showing what work he has been doing and the time taken on each.

This may be done by quoting the order or job number, and if any time is spent on indirect work, such as repairs, there must either be an order number to quote or a stock description, e.g., letters such as R.M. (repairs to machinery) by which the man can allocate his time.

(5) These time records should be signed by the man and countersigned or initialled by the foreman of the shop.

(6) These time records will be passed to the wages office where each item will be priced at the man's rate ; the total of the week's time record of each man should agree with the amount shown as earned by him in the wages book.

We thus have a check on both wages sheet and time records.

(7) The time cards may now be analysed by job or order numbers and posted to the job ledger. Usually this is done through the medium of a labour analysis sheet, which combines three functions.

(a) It enables the agreement between time record and wages sheet, described in the preceding paragraph, to be made in total, thus avoiding a certain amount of detail work.

(b) It acts as a day book to the job ledger.

(c) It acts as part of the wages voucher, since it will give information regarding the direct and certain indirect charges, e.g., plant and machinery repairs.

(d) It can be used to post the total account of the job ledger, thus making the job ledger an ordinary self balancing ledger.

(8) As regards overtime, this is paid for at an enhanced rate. The extra amount should be calculated on the time record and wages sheet as before, there being the usual check to the wages sheet from the signing off.

(9) The wages sheet meanwhile has been completed as to such items as insurance contributions, deductions, advances, &c.

(10) Each entry on the wages sheet should be checked and initialled by a clerk other than the one making the entries and calculations.

(11) The cashier can now use the wages sheet as a voucher for paying wages—the only point in the whole system with which he should be concerned.

The foreman of each shop should attend the pay table to prevent substitution, and only a man's own wages should be paid to him. Special arrangements must be made for payment of absentees. The foreman should sign the wages sheets as witness to the payment, the cashier should sign as paying, and then the whole sheet countersigned by a responsible official.

(12) In piece work pure and simple there will only be needed a work record showing what each man has done, the initials of the foreman, the viewer, and if possible those of the storekeeper who receives the product in to stock.

The wages sheet can then be compiled directly from these records.

(13) For the premium systems a rather more elaborate time record is necessary. The time element can still be checked back to the gate record, but the premium or bonus partakes of the nature of piece-work. The time portion of the wages should be agreed as in the ordinary time system, and the premiums, when calculated, shown in a separate column of the wages sheet.

AS REGARDS MATERIALS.

To get an effective costing system a good system of stock records is essential. The main points are:—

- (1) A quantity stock ledger should be kept with a different account for each article, and each article should be stored in a separate bin or shelf.

The stockkeeper should on no account have access to the ledgers.

- (2) All receipts by the storekeeper should be debited and all issues credited.

- (3) Continuous stock-taking should be in force, by which stock-taking at accounting periods is reduced to a minimum, while the internal check is considerably tightened up.

By continuous stock-taking is meant the comparing of so many ledger headings per week, with the result of a stock-taking of those articles by an independent stocktaker.

- (4) Stores should only be issued on a requisition signed by a foreman, and quoting the job concerned. One copy of the requisition receipted by the man drawing the stores is retained by the storekeeper as his voucher—another copy goes to the ledgers as their voucher, while a third is used to charge up the job with the cost of materials.

This voucher is priced and charged through an analysis (similar to the labour analysis) to the job card, and in a similar way the total of materials can be posted to the job ledger total account.

There must be a form for recording the transfer of materials requisitioned for one job, and used on another. And this will also pass through the materials analysis without affecting the total. Any return to store of materials requisitioned but not used should be vouchered. Copies of the vouchers should be dealt with as in the case of ordinary requisitions. All manufactured stock should be vouchered into store, one copy to the storekeeper and one to the ledger office, while a third forms the basis of a credit to the manufacturing account and a debit to finished stock account. Finished stock should be kept apart from store as well as separate in the accounts.

It is of great assistance to distinguish by means of size, colour, &c., the different classes of voucher and also the copies of vouchers destined for different departments. All vouchers both for labour and materials should be numbered serially, keeping a separate series for each class.

I do not propose to go into the question of the methods of pricing materials, but I think it is obvious that, in view of fluctuating prices, exact agreement between the financial costing records will be almost impossible as to the total issues. This difference can be ignored provided it keeps within reasonable limits.

DIRECT PURCHASES.

Some materials may be bought for a particular job, and not go through the storekeeper's hands. In this case the charge should be made direct to the job from the day book, the totals again being posted to the job ledger total account.

Chargeable Expenses should be debited to the job ledger from the day book and the total posted to the job ledger total account.

We have now dealt with all the direct expenses on the job.

As regards the *Indirect Expenses*, we have already said that they are incapable of direct allocation. They do, however, form part of the cost, and some arbitrary method of apportionment is necessary.

It has already been noted that these expenses must be allocated as far as possible to departments, &c. The arbitrary apportionment should only be used at the last stage.

WORKS ONCOST.

The most usual methods are:—

- (1) By a percentage of prime cost—this is not scientific, and is not often used now.
- (2) By a percentage of the direct wages charged to that job.

This usually gives good results.

- (3) By a charge based on the number of hours worked on the job.

Used on the theory that the unskilled man takes more supervision, and so time is the correct basis.

- (4) By a differential rate, which is a different percentage for the various departments.

- (5) By a machine hour rate, which is the calculated cost of each machine per hour charged at so many hours use to the job.

OFFICE ONCOST.

Office oncost is charged at a percentage of total works cost (including works oncost).

Of course the percentages are discovered by calculation from the totals of the various expenses from time to time.

The rates of oncost should be checked from time to time with the actual rates as shown by the periodic accounts and any adjustments necessary made. It is usual to charge oncost to jobs only on completion.

The job is debited and works oncost or office oncost account, as the case may be, credited. At balancing time some jobs will not be closed, and therefore no oncost added. In such cases it is usual to debit the appropriate overhead charges to works or office oncost suspense accounts, crediting the office and works oncost accounts. These items are written back immediately on the opening of the new period, the object being to complete the double entry of the costing system. The total of the oncost accounts can then be compared with the total of those expenses it is contemplated they shall cover. From this comparison, adjustments of the rate can be made.

It is perhaps a subject for discussion whether the charging of oncost only on completion of the job is not unscientific. If the rate varies the right oncost will not be married to the right direct charges. The job should really be charged with the oncost of the period in which each portion of direct expense was incurred. The only reason why oncost is charged at all is because certain charges are incapable of direct allocation, and is it not reasonable to suggest that oncost should be charged at the earliest possible moment—that is when the direct labour itself is charged?

In outlining a cost scheme the matters to be particularly watched are:—

- (1) Ascertain the scope of the scheme and the information actually required by the principals. The scheme is for their benefit, and although the accountant should advise, it must be remembered that cost accounts are to "assist the business" and not the "business to assist the cost accounts."

- (2) Ascertain amount which will be allowed as the cost; the coat must be cut according to the cloth. Here again the accountant should endeavour to advise that costing must cost money, to be efficient; but it is not possible for a business to increase its "overheads" indefinitely.

- (3) Examine the financial accounts. Often the cost accounts may be conveniently dovetailed into existing records, thus saving expense.

(4) Examine the wages and clocking system, and draw up the time sheet to avoid, unless great expenses would be caused, as much dislocation of the old system as possible.

Of course, in some businesses the only hope is to scrap all old systems and put in efficient modern ones. I am reminded of a tale which I hope is not too old to recount. I will not give you the domicile of the principals, and in any case I cannot speak the "mother" tongue: A dentist died and his brother came to bury him. The brother was shocked at the cost of everything. He thought the coffin expensive, the undertakers' charges outrageous, but when it came to a guinea for a breastplate on the coffin he struck. "Nay," said he; "we'll use the old professional doorplate. Poor Willie won't want it any more."

The moral is to be thrifty, and use as much as possible of the existing system, and in outlining a scheme one should not be too much of a "new broom," especially as it will prejudice the scheme if more changes than necessary are made, and will also prejudice the value of the fee earned.

(5) The accountant should now examine the profit and loss account, and ascertain from this and enquiries the best method or methods of distributing his oncost.

(6) The most important point of all probably is the system of storekeeping and internal vouchering.

This must be gone into very thoroughly, particularly as it is often the case that proper stock (quantity) accounts are not kept before the institution of cost accounts. A simple, as far as possible fool-proof system must be devised, allowing for a proper internal check.

It should be remembered that this part of the system is one for which a business man can usually see use, in that it can be of great assistance in ordering and in keeping stocks as low as possible consistent with efficiency, so avoiding the locking up of capital.

Also if the size of the business warrants it, both cost is reduced and accuracy increased if calculating machines are introduced for a good deal of the detail work.

While we have seen that cost accounts in the first place must have as a foundation a set of ordinary financial records, yet when the system has been solidly built on a broad foundation I suggest there is a possibility that the position becomes somewhat altered.

Is it not possible to build up the financial accounts from the cost account? For instance, could not the total account of the job ledger systems be used to provide the information from which to build up the manufacturing and profit and loss accounts? Efficiency might be increased and accounting expenses reduced. An article in the *Manchester Guardian* of some four months ago puts this point most clearly.

As the last point of this paper may I set out certain suggestions affecting costing from the point of view of economics?

If we examine the production and consumption of a utility, we find the following main divisions:—

- (1) The raw material which is all supplied free by nature, e.g., the ore in a mine, or the growth of a seed.
- (2) The production of a utility from this raw material, e.g., the digging of the ore, smelting, &c.; in various stages until a finished article is produced.
- (3) The transport of the various materials between the various producers.
- (4) The distribution of the final utility to the consumer.
- (5) The consumption by the ultimate consumer.

Now the first is supplied wholly by nature, and the last is an enjoyment of some sort. The other three consist entirely of pure labour, cost of management and interest on capital employed. Thus, are not materials mainly capitalised labour, and their only value labour and interest employed in making them? The only difference in value between a cabbage and an orchid is in the labour expended and the interest on the capital employed.

Interest on capital, in the cost sense, can be described as the money value of the "waiting" inserted between the various phases of production. We referred to this time factor at the beginning of this paper.

It seems, therefore, that all cost consists of labour, management and interest on capital. Let us go further and examine capital.

Capital, i.e., trading capital, may be defined as rights to the work of other men accumulated in the past, which the present owner may utilise in whatever direction he pleases. This leads to the conclusion that all cost is labour (which, of course, includes management) in some form or another.

I think you will see the point we seem to be reaching. "Value" is "labour" in one form or another, and the only real links between these various forms of labour are statistical records of different kinds.

I think a reference to the lecture delivered to this Society by that great industrial peacemaker, Lord Asquith, some time ago will show that from the purely domestic side, if I may call it so, the necessity for properly compiled statistical tables is being felt. Sound bases for such tables are general and standardised cost accounts.

The future development of accountancy lies in the perfecting of cost accounts, and this is a subject well worth specialisation by the younger generation of accountants.

And now there only remains to thank you for the patient hearing you have so kindly given to my lecture. I hope the direct cost to you in time will be amply repaid by examination day resulting in pleasing statistical records.

Discussion.

Mr. D. N. CRICK, Incorporated Accountant: I am glad to see that at last someone is taking up the question of what the employer wants rather than what the accountant wants. In the case of a small factory, the question of introducing a costing system is a most difficult one. It is very hard to convince a man who is spending from £100 to £150 a week in wages that it would pay him to employ a permanent costing clerk at the cost of another £5 a week. In small factories, I think, the easiest way to build up a system is gradually to introduce statistical returns, one at a time, until at length an efficient system is evolved. To endeavour to introduce an elaborate method all at once is almost impossible. Try and do it for a general foundry. I should like to ask the Lecturer how he would deal with the loss of overheads occasioned by a strike? You will find some employers rather object to piece work rates of wages, as they necessitate certain returns under the Factory Acts, which are annoying. Another objection to them is that the foreman fixes a rate based on the time occupied on the job by a man who knows he is doing it to fix a price rate; consequently about a fortnight afterwards you have to cut rates, and this creates discontent. Another question I should like to ask the Lecturer is, what would the Inspector of Taxes say to cost accounts built up from cost records rather than from financial books?

Mr. T. HAWORTH, Incorporated Accountant: The lecture has been a very interesting one, but I must confess to a little feeling of disappointment that we have not heard very much about the principles of cost accounting. My views are perhaps—shall I say?—a little heterodox, but I think we are rather flogging a dead horse in insisting so much on costing as being something distinct from ordinary accounting. I think the Lecturer brought the matter to an issue when he

said that instead of stretching the elastic, it should be a case of contracting it. There have been many developments in cost accounting during the last five or ten years, but I do not think that many of them have been put before you to-night by the Lecturer. There is one word I have been waiting to hear during the whole evening, and I have not caught that word; it is the word "measurement." I am afraid we are all too much engaged in matters of allocation and arbitrary division, and we overlook what is the real fundamental of all accounting, and that is "measurement." We have to get down to measurement on all possible occasions, for the further we get away from measurement the less effective will our accounting be. Then there is another point, in connection with the lecture generally, as to which again I say I have been disappointed. My view is that personality is the basis of all efficiency, and that in our accounting, if we are doing it from the point of view of efficient management, we have to measure the efforts of individuals; the costing of the product does not really matter very much if we have the elements or factors which go to make up the article correctly and properly under control. Therefore I say that attention should be paid more to the personal than to the impersonal aspect. Perhaps I might put it in this way: Instead of keeping a lot of records after the event, as has been outlined to-night, I would urge that the main effort should come before the job is begun, and that effective comparison with predetermined standards should be made at different stages throughout the process of manufacture; we should then be able to check up what is expected of the operating officer with the performance he has achieved, as shown to us in our costing records. I can, perhaps, illustrate this point in a general way by referring to a printing establishment which affords many examples of jobbing work. My view is that it is preferable in the first place to establish a proper estimate for the job. If as manager I can issue out the component parts of a job to individuals in charge of different departments: if I can specify the time limits which, as a practical printer, I feel the job ought to cost, and I can make my records at the point of the foreman's control or at other stages, I can see quickly if the cost of the job is coming out all right. In the vast majority of cases a proper system of estimating costs with adequate accounting control at different points is infinitely more effective and less costly to operate than any other system of job or detailed costing. These are a few general observations on the practical side of costing, but there are one or two matters of principle that I would like to put before those present to-night. One of the important points in cost accounting is to synchronise the records with the facts. In many cases this is overlooked; we make the primary records of facts many days, or, perhaps, weeks after the event, and consequently the results cannot be relied upon. I make the further point that our accounting must be a matter of measurement and not of arbitrary division. Costing must be a matter of measurement and not a matter of calculation. Another important point, and one which I put specially to the junior members of this audience, is that when information is supplied to executive officers it should be in such a form as to suit the status of the individual. We must be very careful in presenting information to our executives that we do not try to ply the senior officer, say the managing director, with all the details. There are other points in the lecture that are mostly matters of practice, but I will leave those for other gentlemen to deal with. There was, however, one point which the Lecturer referred to in a rather casual way, which raises issues of considerable importance. He spoke of crude oils and residuals. What suggestion has he to offer for measuring effective output at each stage? What method does he suggest for dividing the costs at each stage between the main products and the bye-products?

Mr. SILVESTER: I was unable to hear why the last speaker was a little disappointed, but I too have some feeling of disappointment, not so much with the subject matter of the lecture as with its applicability to the particular work that the Lecturer has been carrying out. I should like to ask him if he can give us some idea, in a few words, as to how he applies the costing system which he has outlined to subjects which do not usually fall within ordinary limits? I am referring more particularly to such things as the comparison of, say, tanks with cavalry. I should like to know whether that is the line that is taken, or whether it is a question of costing

individual units, or comparing them, one period with another? It has always seemed to me that where a commanding officer is not concerned with policy but with the carrying out of orders, he is perhaps not so interested in the cost as he would be if he were the manager of a manufacturing department. There is just one small point of detail I should like to refer to, and that is with regard to the difference that arises between the financial and the cost accounts. I suggest that any such difference might be written off over the jobs in proportion to the labour or number of hours spent on the job. In that way you would get complete agreement, although perhaps it would be arrived at by somewhat devious means.

Mr. G. G. NEAL: I should like to ask the Lecturer's opinion on the much debated question as to whether you should charge out goods at cost price, or market price? It seems to me you very rarely reconcile the actual goods sent out to any particular purchase, and there is bound to be some slight difference. Then, again, as cost accounts should provide you with an estimate for jobs which will compare favourably with other people's estimates, it seems to me it would be better to charge out at market price; thus you would see at the end of the period whether you have been buying your goods as advantageously as the firms with whom you are in competition. Another point is this: it seems to me, with regard to wages and time records, if you insist on having a system where every man's time is taken very strictly, you are trying to make a man either a machine or a saint. I do not think men are naturally built that way, and I think they rather resent it. That, again, is possibly going to lead to trouble in the future.

Mr. H. S. COHEN: With regard to the auditing of costing, would the Lecturer tell us whether it should be dealt with in the cost accounts, or in the financial books? It is a point I have never yet heard raised.

Mr. G. H. BRIDGE, Incorporated Accountant: Our Lecturer this evening devoted some little time to the question of the allocation of indirect expenses. It seems to me that that is a most important matter in cost accounts. One frequently finds that small traders, or manufacturers, prepare cost accounts up to a point—direct wages, materials, &c.—and then add on a round figure to represent indirect expenses. In practice it is found that such addition is generally wide of the mark, either too small or too large. It is necessary that the allocation should be on a proper basis, as otherwise it may show misleading results; it may show a larger profit or a smaller profit than actually is the case. It seems to me very important that a job should have the appropriate indirect expenses added to it, in order that the manufacturer may know which jobs are the most profitable and—other factors being equal—in what direction it pays him best to extend his business.

Captain DAVIS: You have given me rather a packet of questions. The first one was with regard to loss of overheads caused by a strike. Well, they have gone. They are an expense which has to go into your profit and loss account, and by some means or other they will have to be dealt with in your cost accounts. I would not like to lay down any system of dealing with them, because it depends on so many factors. Your direct expenses cease, you have nothing to charge the overheads to but the next period, or the last period. If you charge them to the next period you are probably going to lose the next contract. I think that in many cases the only way would be to write them off. As to the Inspector of Taxes, perhaps I did not make myself plain. I have built up in my own office financial accounts from cost accounts. It is quite easy. You get the total of your wages and you deal with it first in the cost ledger; the day-book is a day book to the cost ledger instead of to the financial ledger, and the accounts are built up from the cost ledger total accounts. Of course there are many points to be considered in actually getting out a scheme, but it can be done. As it was a controversial matter I did not put it forward as a statement of fact. I think the Inspector of Taxes would be quite satisfied if you had the ordinary wages voucher, &c. The next speaker has set me a formidable task. I entirely agree with him, but I would point out that this lecture was supposed to be on "Some Principles of Cost Accounts." I entirely agree that the whole point of cost accounting is measuring; but what are you going to do if you do not start with a standard of

measurement, i.e., £ s. d. ? The basis of measurement is fact, and, from the accountant's point of view, we ascertain how the figures can be arrived at to prepare necessary statistical tables for the other man to use. The accountant's job, as such, is not to estimate. He gets into trouble if he does. The accountant is there to show how to record the facts on which the manager can estimate. But I think the speaker will agree that you must have the facts first. I quite agree with him as to the personal aspect. You can indirectly measure up enthusiasm just as you can anything else. Cost accounts are there to be used by everybody, from the foreman to the general manager—or, rather, the information derived from them. The actual using of the statistics is a matter for the technical man. As regards oil, I am afraid I am not an expert in oil; but I think the only basis on which you can build is quantity. You have only two measures—£ s. d. and weight or quantity—therefore any basis you take must be one of those two. Personally, I think quantity is the best, but as I am not an expert I will not say. As to the application of this to Army accounts, I will try and explain what we did. I was costing two of the largest Army Ordnance depôts for six years. The actual account presented to Parliament was, as it left the Commanding Officer, a financial account. When it got to the War Office it was a departmental cost account. You got the costs in a columnar form. We tried to measure the efficiency of every particular phase of that depôt. We did not have the personal time sheet, but a group time sheet, since in dealing with operating costs one has to be careful not to spend too much money. I presented statistical records weekly to the commanding officer, a statement which he put up on the wall and said to his subordinates, "Look at that!" He found the results very useful; he got the statistical records, showing under every group in the depot every week what it cost to do work under certain agreed heads. We sent him up a composite statement with about 600 calculations. The application of these accounts to the ordnance department, as far as the technical side was concerned, was exactly the same as you would expect a progressive costing system would be applied to an ordinary business. You found out what was done, the heads under which the employer wanted to know all about it, and organised the records in order to give him the results. So the application of ordinary costing to army work is quite easy. As regards tanks and cavalry, we did once have to report a statement of saving by mechanising artillery. It was thought by some that as no horses and many fewer drivers were needed for mechanised transport, there would be a substantial saving, but they forgot that the tractors wanted workshops at the base. We were able to show that dragons were not quite the saving that they looked. It cost a lot of money to repair them. From workshop records we showed how much, and the drivers who were in the firing line therefore were turned into mechanics immobilised at the base. Cost accounts can be very useful in helping to shape policy. As to cost price or market price, it is a matter of what you can do. If you can find the market price and put it through, by all means do so, but if you are dealing with 100,000 articles, as I have had to do, market price is a difficult thing to get at. Every costing system depends on what you have to do and what you have to do it with; you have to fit your system to the facts. As to auditing cost accounts—well, it has nothing to do with the auditor. I would throw out the suggestion that, if labour is going to be such an important factor, it may be that the direct wages group will want to appoint auditors on their behalf to check cost accounts; but until that time comes I do not think you require to touch them as auditors. I think I have dealt with all the points now.

The CHAIRMAN: I should like to make one or two brief remarks on the words of wisdom that have fallen from our Lecturer's lips. I was particularly pleased with his historical survey of how accounts have gradually grown from the tallystick to figures in writing and to the columnar method, and I was much struck with his statement that the columnar method of book-keeping, which began some 25 years ago, was really the first attempt at costing. I think that was a very happy remark. You have only to think of a farm account departmentalised into cattle, sheep and pigs, and the crops departmentalised into grain and straw, roots and green crop, pasture and hay, and visualise it, taking that as your departmental finance account, and then dive into your costings

to get at, for instance, the cost per litter of little pigs of so many weeks old: that was an actual matter on my table to-day in connection with a big farming account. Such an account will show you how true it is that probably the columnar basis was really the birth of a costing system. Now, I have a feeling that, if I am to go in for costing, I must base it upon sound finance accounts. They are the sheet anchor of my boat, and I know my bearings when they are there. So placed, I rather regard my costings as largely good fun, and I plunge overboard and swim about, knowing that I can get back to my sheet anchor when I feel tired. It is jolly good fun, because I find out all sorts of interesting things, such as how much my little pigs cost when they are twelve weeks old and ready for the butcher. I can confirm what the Lecturer has said about the Commanding Officer at the depot. He became an enthusiast over the costings which our Lecturer placed before him, and he himself said to me years ago "You know this has thrown a new light upon the whole of my life in the management of this great depot; it has given me something to manage with which I have never had before." He was an officer, and he wanted to go round the Army impressing upon all other officers the real strength and power in management he had acquired from the cost accounts which the Lecturer initiated. I only mention this because it shows the way in which costings can be made to appeal to the owner of a business. You can attract him quite easily by letting him make these little expeditions of his own, under advice, and he will finally say "We will put someone on to this work regularly." With these few words I will ask Mr. Bridge to propose a vote of thanks to the Lecturer, and Mr. Menzies to second it.

The vote of thanks to Captain Davis was carried with acclamation, and a similar vote was accorded to the Chairman for presiding.

DUBLIN INCORPORATED ACCOUNTANTS' STUDENTS' SOCIETY.

We are pleased to announce that a Students' Society has been formed in Dublin under the presidency of Mr. A. Cyril Storey, F.S.A.A. An attractive programme of lectures has been arranged, which is published below. The Society should receive the support of all members and students in Dublin.

At a recent meeting of members the following officers and committee were elected:—President, Mr. A. Cyril Storey, F.S.A.A.; Vice-President, Mr. A. J. Walkey, A.S.A.A.; Members of the Committee, Mr. P. G. Smith, Mr. R. W. Cashell, Mr. H. C. Fletcher; Honorary Treasurer, Mr. J. Kelly; Honorary Secretary, Mr. T. R. Beddy.

Syllabus of Lectures.

1926.
Sept. 29th. General Meeting. Chairman: Mr. A. H. Walkey, F.S.A.A.
Oct. 15th. "Notes on Share Transfer Work," by Mr. A. J. Walkey, A.S.A.A.
Nov. 5th. "The Economic Syllabus," by Mr. G. J. T. Clampett, B.L., F.R.Econ.S.
Dec. 3rd. "Income Tax—Viewing the Fiscal Code," by Mr. C. P. McCarthy, M.Comm., F.S.A.A.
Dec. 17th. A Review of the Recent Examination Papers.
1927.
Jan. 12th. "Executorship Law and Accounts," by Mr. W. B. Butler, B.L.
Jan. 28th. "Income Tax—Reliefs and Allowances," by Mr. P. J. Purtill, LL.B., A.C.A., A.S.A.A.
Feb. 18th. "Bankruptcy," by Mr. John Brown, F.S.A.A.
Mar. 11th. "The Aims and Objects of an Audit," by Mr. A. H. Walkey, F.S.A.A.
April 1st. "Annual General Meeting of A.B. Manufacturing Company, Limited." Chairman: Mr. R. J. Kidney, F.S.A.A.
April 22nd. "The Duties of a Secretary, and General Company Procedure," by Mr. A. Cyril Storey, F.S.A.A.
May 13th. "The Elements of Costing," by Mr. A. E. Dawson, A.C.A.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Meeting of Scottish Council.

A meeting of the Council of the Scottish Institute of Accountants (the Scottish Branch of the Society) was held in Glasgow on the 22nd ult. Mr. D. Hill Jack, J.P. (President of the Branch), presided. There were also present: Mr. Robert Young (Elgin); Mr. Wm. Robertson, F.F.A., and Mr. Walter MacGregor (Edinburgh); Dr. John Bell, Mr. John A. Gough, Mr. Wm. Houston, Mr. P. G. S. Ritchie, Mr. E. Hall Wight (Glasgow); Mr. J. T. Morrison (Coatbridge); Mr. E. Mortimer Brodie (Port Glasgow); and Mr. James Paterson, Secretary. Apologies for absence were intimated from Mr. R. T. Dunlop and Mr. J. Cradock Walker (Glasgow); Mr. Wm. L. Pattullo (Dundee); Mr. A. Scott Finnie (Aberdeen); and Mr. J. Stewart Seggie (Edinburgh). A number of applications for membership were considered and remitted to the Examination and Membership Committee, or otherwise dealt with. Other items of interest to the members of the Society in Scotland were also considered, and suitable action taken where necessary.

Glasgow Students' Society.

The opening meeting of the present session was held on 6th ult. In the absence of the President and Vice-President of the Student's Society, Mr. James Paterson, Secretary of the Scottish Branch, presided over a large attendance. In announcing the programme for the ensuing session Mr. Paterson said that efforts had been made to have a series of lectures in connection with examination subjects, but these arrangements had not developed far enough to allow of a definite statement meantime. In introducing the Lecturer for the evening, Mr. Peter C. McAuslan, A.S.A.A., Ayr, the Chairman said that the subject of "Farm Accounts and Income Tax" was one which would be new to some of the students, and it was common knowledge that farmers were in many cases content to be assessed on their rental under Schedule B, and were more or less indifferent to the advantages which they might claim if proper accounts were kept and submitted. Mr. McAuslan, in proceeding with his lecture, first referred to the different methods of assessing farmers for income tax. He next gave examples of various methods of recording farm transactions, alterations in stock arising from breeding, sales and other causes, and outlined a simple style of book-keeping for farmers. He said that as a rule he had not found the copyright books supposed to be specially prepared for farmers much good, and preferred a simpler style as more likely to be kept up-to-date. Mr. McAuslan afterwards discussed various provisions in the Income Tax Acts, and decisions of the Commissioners affecting allowances and abatements which, in certain circumstances, might be claimed by farmers, who, the Lecturer said, were a specially favoured class. After remarks by Mr. A. B. Marshall, Mr. Robt. Fraser and others, a cordial vote of thanks was given to Mr. McAuslan, on the motion of the Chairman, for his interesting and informative lecture.

The Termination of the War.

A case involving the question as to the official date of the termination of the war was recently before the Court of Session. An action was raised by the Corporation of Greenock against the Commissioners for Executing the Office of Admiralty for a large sum in connection with the supply of electricity for the areas in which the Royal Naval Torpedo Factory is situated at Greenock, in respect of extensive additions to the Corporation's electricity works. The main question in dispute was with reference to the meaning of the expressions "after the war" and "the war period" in the correspondence. The defenders (the Admiralty) contended that the war period expired on December 14th, 1918, while the pursuers contended that August 31st, 1921, should be treated as the date of the termination of the war, as this was the date fixed by an Order in Council. Lord Fleming held that the war period in the agreement ended on August 31st, 1921, and *quoad ultra* allowed parties a proof of their assessments.

Notes on Legal Cases.

COMPANY LAW.

In re Stephen Walker.

Voluntary Liquidation and Resumption of Business.

A reduction, reorganisation and increase of capital with a view to continuing to carry on the business of a company can be directed by the Court while the company is in voluntary liquidation, and all further proceedings in a voluntary winding up stayed.

(Ch.; (1926) 70 S.J., 953.)

INSOLVENCY.

In re Lindsay.

Unemployment Insurance Contributions are not Preferential Payments.

Brown (J.) held that arrears due in respect of unemployment insurance contributions are not preferential payments under the Bankruptcy (Ireland) Act, 1889, and were recoverable only as a civil debt.

(K.B.; (1926) N.L., 128.)

REVENUE.

Scottish Woollen Technical College v. Inland Revenue.

Public School.

A technical college was founded for the general advancement of and training pupils for the Scottish woollen industry. The college claimed exemption in respect of income tax on the grounds that it was a public school within the meaning of Schedule A, No. (vi), Rule 1 (c), of the Income Tax Act, 1918, because it was a charity within the meaning of sect. 30 of the Finance Act, 1921.

The Court of Session held that it was not a public school, but was a charity and was entitled to exemption from income tax by sect. 30 (*supra*).

(C.S.; (1926) S.L.T., 616.)

Canadian Minister of Finance v. Smith.

Unlawful Business.

It was held by the Privy Council that the Income Tax Acts are not necessarily restricted in their application to lawful businesses only. The question is one of construction of the particular words used.

So far as Parliaments with sovereign powers are concerned, Acts need not be so restricted; it was merely a question of the words used.

(P.C.; (1926) 42 T.L.R., 734.)

Inland Revenue v. Glasgow Musical Festival Association.

Exemption for Association Established for Charitable Purposes.

A musical association was formed for the purpose of holding musical festivals and carrying on educational enterprises for the improvement of musical taste. It claimed exemption from income tax in respect of interest and dividends on certain investments on the ground that it was a charity within the meaning of the Income Tax Acts.

It was held by the Court of Session—

(1) That the association was a body of persons established for charitable purposes only, that its income was applied to charitable purposes only, and was therefore entitled to exemption from income tax provided by sect. 37 (1) (b) of the Act of 1918.

(2) That the association was carrying on a trade but was entitled to the exemption from tax provided by sect. 30 (1) (c) of the Finance Act, 1921.

(C.S.; (1926) S.L.T., 604.)